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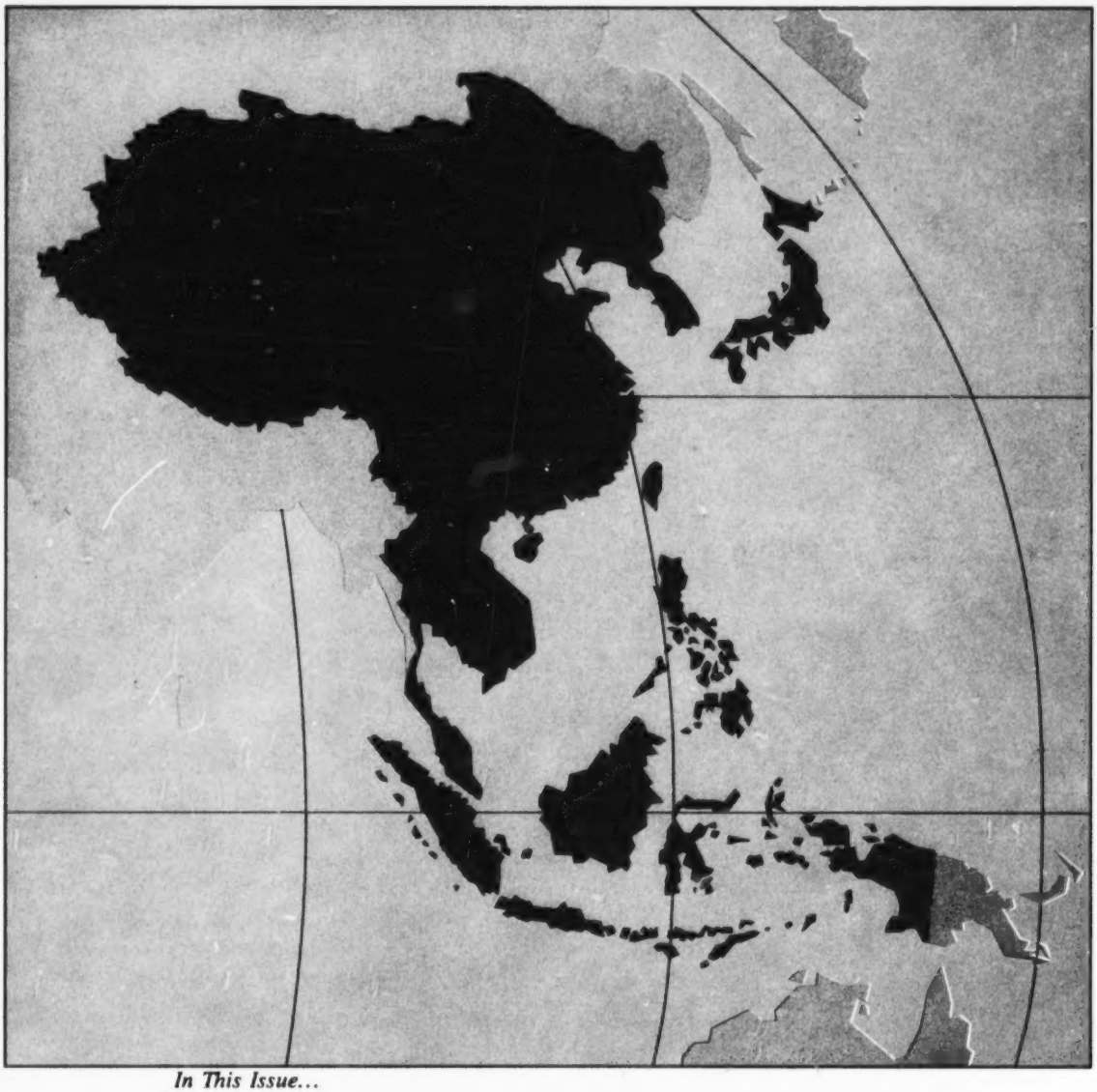

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The **PACIFIC RIM ECONOMIC REVIEW** is a subseries of the Survey Series. The **REVIEW** is published biweekly by East Asia Group and contains a selection of reports on economic topics appearing in foreign newspapers, magazines, and journals, as well as radio, television, press agencies, and data base sources, primarily from the countries of the Pacific Far East. Material is presented alphabetically by geographic area, and then arranged alphabetically by topic where possible. All articles in the **REVIEW** are summaries of original foreign media reports and are presented in two formats: "Feature" articles, which either summarize a lengthy report from a single source or summarize media reports on the same subject appearing in more than one foreign media source; and shorter summaries of news reports, usually from one source.

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20 April 1994

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JAPAN

Auto Industry

Automakers' Recent Parts Procurement Plans Reveal Little Growth

On 29 March, Honda Motor Co. and Mazda Motor Corp. became the last two of the five major Japanese automobile makers to formally announce "independent plans" to increase their procurement of U.S.-made auto parts, according to the 30 March YOMIURI SHIMBUN. In response to U.S. pressure and possible sanctions, each of the five firms, including Toyota Motor Corp., Nissan Motor Co., and Mitsubishi Motors Corp., have released purchase plans over the past several weeks. According to the 10 March ASAHI SHIMBUN, the companies have "intentionally" drawn up separate plans with different dates and announced these plans at different times "so that they would not be considered as one package" by the United States. YOMIURI stated that the companies "fear" the United States will treat their purchase plans as "public commitments," as happened with their FY94 procurement goals. Thus, the firms are emphasizing that their plans are "forecasts" and not "goals."

The 4 April NIKKEI WEEKLY asserted that the automakers will "sharply increase" purchases from foreign suppliers, especially the United States. But the claim of large increases is not borne out by the the figures on company purchase plans contained in the 30 and 31 March YOMIURI and the 4 April NIKKEI WEEKLY, compiled below. [Figures are in billions of dollars. 1992 figures are actual; 1993 figures are estimated; 1994 figures are voluntary targets set in January 1992; and 1995-1997 figures are "planned" purchase figures. The newspapers did not provide figures and estimates for all years.]

	Fiscal Year	Local Purchases	Parts Imports	Total
Toyota	1993	3.50	1.20	4.70
	1994	3.82	1.46	5.28
	1996	5.15	1 .30	6.45
Nissan	1992	1.95	0.44	2.39
	1994	2.90	0.80	3.70
	1997	3.40	0.90	4 .30
Mitsubishi	1993	0.65	0.26	0.91
	1994	1.20	0.40	1.60
	1996	1.40-1.63	0.35-0.44	1.75-2.07
Honda	1992	3.21	0.53	3.74
	1994	4.38	0.56	4.94
	1995	4.6 5	0.54	5.19
Mazda	1993	1.65	0.19	1.84
	1994	1.90	0.40	2.30
	1997	1.90	0.35	2.25

The figures show that all companies, except Mazda, are forecasting an expansion of "local" parts purchases for vehicles built in the United States, which press reports attribute to increased Japanese auto production in the United States. For example, the 26 March NIHON KEIZAI SHIMBUN stated that Nissan will increase local procurement as production at its Tennessee auto plant reaches "full capacity," while the 29 March NIKKAN KOGYO SHIMBUN reported that Toyota is progressing towards "doubling" its production capacity in the United States, which will lead to greater local procurement of "parts and materials."

According to the above figures, however, only Nissan is planning to increase imports into Japan of U.S.-made auto parts beyond its FY94 goals, although Mitsubishi has given a range that might exceed FY94's level. Further, several press reports only mentioned the new purchase plans in comparison with FY93 procurement levels, in which case all automakers show increasing imports. For example, the 30 March NIKKAN KOGYO SHIMBUN stated that Mazda plans to "raise" imports from just under $2 billion in FY93 to about $3.5 billion for FY97, but did not mention Mazda's FY97 import goal is $.5 billion less that the firm's FY94 goal of $4 billion.

According to the 31 March YOMIURI, unless Japan's auto market recovers soon, the automakers will find it difficult to attain "even their FY94 procurement goals." The paper stated that based on the expected FY93 figures, both Toyota and Nissan will have to boost procurement over 10 percent in one year to reach their FY94 goals, while Honda, Mitsubishi, and Mazda are between 20 and 40 percent short of their goals.

Ministry of Finance Statistics on Principal Auto Parts Trade

The following chart, based on Ministry of Finance trade statistics obtained from the Nikkei Telecom News and Retrieval Database, lists Japanese imports and exports of auto parts with the United States according to the International Harmonized Commodity Description and Coding System, which shows Japanese auto parts imports by specific category.

Japanese Auto Part Exports/Imports To/From the United States
(Figures in millions of dollars)

Trade Codes/ Descriptions	1990	1992	1992	1993
8708: bumpers, seat belts, brakes, gear boxes, drive axles, shock absorbers, mufflers, clutches, and steering wheels.				
Exports	5,340	5,241	5,761	6,534
Imports	223	266	308	354
84073: diesel and gasoline automobile engines.				
Exports	1,247	1,189	1,567	2,015
Imports	2	3	41	103
8483: transmission shafts, housings and housed bearings, gears, flywheels, pulleys, clutches, shaft couplings, and parts thereof.				
Exports	388	387	435	539
Imports	87	82	96	100

8511: spark plugs, distributors, ignition parts, and starter related motors and equipment.

Exports	415	354	397	503
Imports	29	25	36	39

8512: lighting and signaling equipment, sound signaling equipment, windshield wipers, defrosters, and related parts.

Exports	208	213	230	260
Imports	6	4	5	8

Nissan To Build Auto Suspensions Overseas, Boost Local Content

Nissan Motor Co. soon will begin production of automobile suspension assemblies at its manufacturing bases in the United States, Mexico, and Britain. Following this move, virtually all "critical" auto parts, except transmissions, will be produced at its overseas facilities. The value of the suspension systems produced overseas is expected to exceed 10 billion yen ($95 million) annually, which will contribute "greatly" to achieving Nissan's recently announced plans to expand purchases of foreign-made auto parts.

The suspension systems are a new type, "multi-ring beam suspensions," that Nissan began making for the new "Sunny" model in Japan. By the end of 1994, Nissan plans to produce them at its U.S. plant in Tennessee for "Sentra" models; by early next year it will produce them in Mexico for the "Sol;" and in 1996 they will be made in Britain for "Primera" models. Total annual production of Sentra, Sol, and Primera models is expected to be between 400,000 and 500,000 units.

Nissan has already begun manufacturing engines in Mexico and Britain and is assembling engines in the United States. Consequently, localizing production of the remaining critical parts--suspension systems and transmissions--had become a "hot topic." In addition, local production will help Nissan attain its recently announced goal of purchasing $3.4 billion in U.S. auto parts in FY97. (Tokyo NIHON KEIZAI SHIMBUN 31 Mar 94 p 12)

Aviation Industry

FEATURE: Recent Japan-U.S. Route Dispute Sparks Deeper Concern

The recent Japan-U.S. aviation dispute triggered by the U.S. deferral of a Japan Air Lines (JAL) license application for a new Sendai-Honolulu route has developed into a retaliatory conflict, in which both sides have reduced the time spans on their respective licenses for existing routes between both countries, according to press reports. The Kansai International Airport Co. is particularly concerned about this conflict because its new international airport in Osaka is scheduled to open in September 1994, and the large revenues it projects from airport fees will not materialize if the dispute grows more complicated.

In a 6 April YOMIURI SHIMBUN article, Mitsuhiro Kusumi, an aviation industry commentator, wrote that the heightened tensions between the United States and Japan as a result of the deadlocked framework talks have given rise to the fear that "new friction" will develop

over aviation issues. Kusumi noted that the main issue in the dispute concerns "beyond rights," an issue that was not resolved in earlier aviation agreements between the two countries.

Kusumi explained that aviation industry relations between Japan and the United States are based on a general aviation agreement signed in 1952 and two "provisional agreements" signed in 1985 and 1989 respectively. In both the 1985 and 1989 agreements, the two sides agreed to "freeze the rights and interests on existing routes" as a regulatory measure on routes the United States had been "freely enjoying." The Japanese side has interpreted the agreements to mean that the rights and interests on all routes between the two countries and beyond would be frozen, while the United States has stressed that the agreements apply to only routes between the two countries. Kusumi wrote that conflict has continued because each side has persisted in its own interpretation of the agreements, and this has led to "the further entanglement of issues" and mutual distrust.

For U.S. airlines, Kusumi observed, "beyond rights" are "given, natural rights." He cited the cases where Japan approved licenses for U.S. airlines to fly Tokyo-Bangkok and Tokyo-Kuala Lumpur routes which, in effect, recognized U.S. "beyond rights" and acknowledged the U.S. interpretation of the agreements. In light of these cases, Kusumi explained, the Japanese side "is the violator of the agreements" and "falls short" in its criticism of the U.S. deferral concerning JAL's license for the Sendai-Honolulu route as being "unilateral." Kusumi noted that in this case Japan asserted its "natural rights," and that in deferring the license the United States is making a "strong assertion" toward seeking a solution to the issue of "beyond rights."

Mutual Distrust on Both Sides

According to Kusumi, Japan-U.S. aviation talks have been suspended since last year because of a "lack of aggressive moves" to reopen them as a result of the recession's adverse impact on Japanese airline companies, which are suffering from "reduced competitiveness." He observed that the U.S. side is growing "increasingly wary" of Japanese aviation policy because it focuses on "protecting the industry" and on a "closed market to rescue the industry."

On the Japanese side, the Japanese Ministry of Transport (MOT) is growing more dubious and distrusting of the negotiating capabilities of its counterparts in the U.S. Department of Transportation (DOT), according to the 23 March MAINICHI SHIMBUN. MAINICHI noted that the recent U.S. "sanctions" regarding the time limits on licenses for existing routes seems to have "passed by" the DOT and were "directly imposed by the White House," because they "trample all over" the aviation agreements between the two countries.

According to MAINICHI, the assistant secretary's position in DOT, which is "equivalent" to the director-general's position in MOT's Civil Aviation Bureau, has been vacant since the Clinton administration took office. MAINICHI noted that "there is no one to do the job" of shouldering responsibility for U.S. aviation policy, and that the DOT officials that attend aviation talks "are of the deputy director-general level."

The Japanese side, MAINICHI added, is also wary because recent U.S. measures "strongly reflect" the desires of United Air Lines and Federal Express--whose request for additional routes have been rejected by the MOT--and because the "opinions" of United's chairman and President Clinton show a "close relationship." The Japanese side believes that President Clinton "immediately carries out the wishes of private industry." Japan also wonders whether the DOT "has properly explained existing Japan-U.S. aviation agreements" to the President, MAINICHI noted.

Concerns About New Kansai International Airport

The 23 March SANKEI SHIMBUN reported that the Kansai International Airport Co. is concerned over the potential impact recent events may have on the opening of the new Kansai International Airport in September. The airport company is projecting revenues derived from about 90 flights daily, or 630 flights a week, but the 34 airline companies represented at a recent International Air Transport Association meeting only expressed interest in a total of 500 flights weekly. According to SANKEI, U.S. airline companies are the "last hope" for the airport company, because they have expressed an interest in "30 percent of the total projected flights." Any complications in the aviation dispute could be "fatally damaging" to the airport.

SANKEI noted that foreign and domestic airlines are all considering a "downward revision" in the number of flights through the Kansai airport because the landing fees are 10 percent higher than at Narita International Airport, and fees for one jumbo jet--at about 1 million yen ($9,600)--are the highest in the world. According to SANKEI, the airport company's deficit will increase by an annual 9 billion yen ($86.5 million) if there are ten less flights each day than it has projected.

MOT To Promote International Flights at Kansai Airport

The 10 April NIHON KEIZAI SHIMBUN (NIKKEI) reported that the MOT has adopted a policy of promoting international flights to Kansai as a priority measure. The MOT has been actively promoting the inauguration of international flights to other regional Japanese airports because Narita and Osaka's Itami airports have a limited capacity for handling international flights. According to NIKKEI, the MOT has decided to focus on Kansai because it wants to develop the new facility into a "hub airport" for both international and domestic flights. Under the same policy, the MOT will carefully consider requests for international flights into regional airports in light of demand trends, and will "enhance" the domestic route structure linking regional airports to Kansai. NIKKEI noted that "the MOT is also seeking to back" the Kansai International Airport Co. "in attracting more international flights" to Kansai.

Defense Industry

SJAC Forms Committee To Study Aerospace Industry Base

The Society of Japanese Aerospace Companies (SJAC), an industry association [shadan hojin] chaired by Isamu Kawai, chairman of Fuji Heavy Industries, has established a committee to study Japan's aerospace industrial base. The new organ, the "Aircraft Industrial Base Study Committee," was established because the aerospace industry is facing a difficult business environment, including a recession on the part of commercial air carriers, the appreciation of the yen, and the aircraft industry's reliance on the Japan Defense Agency for 75 percent of its business.

The committee, which will have 15 members, will be chaired by Yasuyuki Kogure, a managing director of Fuji Heavy Industries. It will have three subcommittees--Technical Foundations Study Subcommittee, Production Foundations Study Subcommittee, and the Business Issues Study Subcommittee--composed of working-level officials that will meet biweekly. The subcommittees will examine "how the industry should respond to the government's new defense policy now being planned;" "industry expectations toward defense policy;" "what constitutes an

effective aircraft industrial base;" and "what industrial policy should be and self-help efforts to strengthen business structures." The committee is scheduled to complete its work by early fall. (Tokyo NIKKAN KOGYO SHIMBUN 1 Apr 94 p 13)

Economic Trends

MOT To Initiate Tourist Expansion Program To Ease Trade Tensions

The Ministry of Transportation (MOT) will establish a "Japan-U.S. tourist exchange expansion program" to expand the number of Japanese tourists visiting the United States by the year 2000 and increase the money they spend in order to add to the surplus the U.S. enjoys in bilateral tourism. The ministry's objective is to "improve Japan-U.S. relations."

In terms of revenues from travelers, in FY92 Japan registered a total worldwide deficit of $30.5 billion, of which $10 billion was with the United States. The ministry believes it can increase this current deficit--or the U.S. surplus--in earnings from Japanese visitors to the United States from $10 billion to $20 billion by doubling the number of travelers between the two countries--4.2 million in FY92--to about eight million. According to the MOT, the objectives of the program will be achieved by "joint Japan-U.S. efforts." However, these objectives will not be "numerical targets" which the Japanese Government will guarantee. The program is also not part of Japan's "external economic measures."

The MOT plans to submit a proposal to the United States to form an "executive committee" to examine specific ways of implementing the program. The executive committee will be established as a joint Japan-U.S. effort, and will be led by government officials from both countries. Potential topics for discussion include Japan's consideration of measures to expand "leisure time systems" for Japanese visitors and U.S. measures to prepare a "service infrastructure" for implementing the program. (Tokyo NIHON KEIZAI SHIMBUN 29 Mar 94 p 7)

Energy/Petroleum

Tokyo Gas Introduces New 'Composite Energy System'

Tokyo Gas, Japan's largest metropolitan gas company, has begun operating a composite energy system which uses three new energy technologies--fuel cell, solar power, and gas cogeneration--to supply electricity, heating and cooling, and hot water at the Senju Technostation, its experimental center in Arakawa-ku, Tokyo, which opened on 18 March. The company's new "Three Fleche (Arrow)" system supplies 57 percent of Technostation's energy demand, with the remainder supplied by Tokyo Electric Power Co. The solar generation unit supplies 30 kilowatts; the gas cogeneration unit supplies 1,360 kilowatts; and a phosphoric acid fuel cell generates 200 kilowatts of electricity by using hydrogen from vaporized water heated by gas.

The system requires an investment of 760 million yen ($7.3 million) to install, but saves up to 40 million yen ($385,000) annually in total utility costs. Companies which install this system can also avoid the 300 to 400 million yen ($2.8-3.8 million) investment which electric power companies require of consumers with service contracts for 2,000 kilowatts or more.

Masao Ogura, chief of the Total Energy Systems Division of Tokyo Gas, stated: "Now is the time to look at various energies and make them more efficient. This will also ease the strained resources of electric power companies." The future diffusion of such composite energy systems, however, will reduce the number of electric service contracts and will create "strong rivalries" between gas and electric power companies. (Tokyo SANKEI SHIMBUN 25 Mar 94 p 3)

Financial Issues

FEATURE: Article Says MOF Prepared To Stop Money Flows to North Korea

A leading Japanese business weekly reported that in the event the UN Security Council approves a resolution authorizing economic sanctions against North Korea, the Ministry of Finance (MOF) would "completely stop direct money transfers" via Japanese banks to North Korea and strengthen checks of luggage at the Niigata Port to prevent travelers to North Korea from carrying large amounts of cash. Although it is not known exactly how much money is sent to North Korea, the article stated, figures quoted in the media "appear too high."

An unattributed article in the 11 April issue of NIKKEI BUSINESS reported that the MOF has finished a preparatory study on how Japan would implement sanctions against North Korea in the event the UN Security Council passes a resolution authorizing economic sanctions. According to the article, the ministry will "completely stop direct money transfers" via Japanese banks to North Korea and "strengthen luggage checks" at Niigata Port to guard against members of the pro-North Korean Organization of Korean Residents in Japan (Chosen Soren) carrying large amounts of cash when they travel on ships to North Korea. Concerning money transfers through third countries, the MOF believes that policing is the responsibility of the third country where the transfer to North Korea actually takes place. If the third country involved is also a UN member, the ministry believes, they would "also be held responsible" for preventing such transfers.

Direct Money Transfers Through Japanese Banks

The article reported that the MOF plans to stop direct money transfers through Japanese banks to North Korea by instituting a rule, based on the Foreign Exchange and Trade Control Law, that "all money transfers to foreign countries must be approved by the MOF." At present, according to the article, 18 Japanese banks have correspondent agreements with two North Korean banks, the Foreign Trade Bank of Korea and Taesong Bank, but only two of the 18 banks, Hokkaido Takushoku Bank--Japan's 21st largest bank--and Ashikaga Bank--the largest regional bank in Tochigi Prefecture--"are being used for money transfers from Japan to North Korea." According to the article, the MOF knows that a total of 4 billion yen ($38 million) was transferred to North Korea through Japanese banks in 1993. Of that amount, 90 percent was transferred through Ashikaga Bank and 10 percent through Hokkaido Takushoku Bank.

Money Transfers Through Third Countries

The article observed that Japan's administrative system does not provide the MOF with authority to check money transfers through third countries. It pointed out that the Bank of Japan

does not possess a mechanism for tracking money transferred to foreign countries, even if it was transferred through a bank.

Yoichi Mabe, director of the Japan-South Korea Economic Research Center, was quoted in the article as saying that Chosen Soren members own more than 100 restaurants and trading firms overseas. Mabe claimed that some members legally send money to their firms in China or Switzerland, where they "hand money to North Korean representatives." Another method cited by Mabe is that some Chosen Soren members legitimately write bank checks to themselves, go to Hong Kong and cash them, and then hand the money "to North Korean trading firms in Hong Kong." The article concluded that, in the event the UN resolution is passed, the MOF would state that it is impossible for Japan to stop such transfers.

MOF's Fear of International Criticism

According to the article, the MOF decided to complete its preparatory study "well in advance" so that Japan would be prepared to state what it could and could not do when and if a UN resolution is passed. The ministry also intended to counter the "international view" that "Japan has a heavy responsibility to respond to North Korea's development of nuclear weapons" by indicating what preventive measures are within Japan's reach. The article reported that the MOF fears the same criticism--"too little, too late"--made by the United States against Japan during the Gulf War, if it were "unprepared and slow" in implementing economic sanctions.

The article explained that nobody, including the MOF, knows exactly how much money is actually being transferred to North Korea. Saying that "figures quoted here and there" are all "guesses," it warned that it would be "dangerous" for Japan to allow "those groundless figures to take on lives of their own."

Researcher Claims 60 Billion Yen Sent to North Korea

According to the article, Katsumi Sato, editor in chief of the journal GENDAI KOREA (Modern Korea), a publication for Korea specialists, in January 1992 estimated that the amount of funds sent by Chosen Soren members to North Korea at 60 billion yen ($571 million) a year. According to NIKKEI BUSINESS, the U.S. Congressional Research Service (CRS) stated in the 16 February 1994 issue of CRS ISSUE BRIEFING that "Chosen Soren members send $600-700 million to North Korea a year, and the total amount transferred to North Korea from Japan is $1.8 billion a year." Because Sato visited the United States and met with CRS staffers several times in 1992, NIKKEI BUSINESS speculated that CRS's numbers "appear to be based on Sato's figures."

The article indicated that Sato had calculated the 60 billion yen figure in the following way. Using Ministry of Justice statistics on reentry permits, he assumed that about 14,500 "Korean residents in Japan with North Korean citizenship" leave and reenter Japan every year, and that each person who went to North Korea carried 3 million yen ($28,500), for a total amount of 43.5 billion yen ($414 million). He also calculated that each of the 200,000-250,000 Chosen Soren members sent 100,000 yen ($952) a year to North Korea through Chogin Credit Associations and Kongo Insurance, both of which are affiliated with Chosen Soren, for a total of 20-25 billion yen ($190-238 million). When the two totals are added together, they come to "around 60-70 billion yen ($571-667 million)."

Article Questioned Sato's Figure

The NIKKEI BUSINESS article used trade statistics compiled by Teruo Komaki, director of the Trend Analysis Department of the Institute of Developing Economies, to question the $1.8 billion total cited in the CRS ISSUE BRIEF. According to Komaki, in 1992 North Korea's total exports amounted to $860 million, while its total imports amounted to $1.64 billion, leaving it with a trade deficit of $780 million. The article stated that if $1.8 billion were remitted to North Korea from Japan annually, "North Korea would have a $1 billion surplus" after balancing its trade accounts, a situation that it viewed as very unlikely.

Concerning Sato's figure of the 60-70 billion yen ($571-667 million), the article noted that since the 14,500 Korean residents had presumably traveled to other places in the world, it would be "illogical" to assume that all had visited North Korea. Moreover, since the total number of travelers included babies and old people, it also would also be "illogical" to assume that everyone hand-carried 3 million yen to North Korea.

FEATURE: Financial Institutions Expanding Derivatives Operations

Japanese financial institutions are enhancing their derivatives operations domestically and abroad, according to press reports. To compensate for declining core businesses profits and to hedge against increasing currency and interest rate risks, financial institutions are bolstering their derivatives businesses in anticipation of further globalization and the concomitant need to hedge. As a result, ancillary businesses have developed in areas like financial computer systems and financial insurance.

According to the 16 March NIKKEI KINYU SHIMBUN, the use of derivative financial products such as swaps, options, futures, and forward contracts is expanding worldwide, particularly in Tokyo's financial markets, and has prompted the Bank of Japan to establish a "project team" to study their effect. Moreover, the Ministry of Finance will begin incorporating derivatives into its calculations of its capital account balance in 1995, according to the 15 April NIHON KEIZAI SHIMBUN.

Banks, Securities Companies Expanding Derivative Operations

Sumitomo Bank was the first Japanese bank to establish local subsidiaries specializing in derivatives in New York (1989), London (1990), and Hong Kong (1991) in a "trilateral" operation staffed by 150 people worldwide, according to the 12 April NIKKEI KINYU. They have formulated a competitive "start-to-finish" strategy, ranging from derivative product development to marketing, risk management, settlement of payments, and accounting.

Sakura Bank's wholly-owned subsidiary, **Sakura Global Capital**, located in New York, focuses on derivatives, the NIKKEI KINYU article reported. It introduced two new interest rate derivative products in 1994 that had garnered $1.05 billion in contract amounts as of the end of March 1994. In addition, Sakura Global Capital will establish a wholly-owned subsidiary in Hong Kong in July 1994 that will coordinate with Sakura subsidiaries in London and New York, paving the way for "trilateral" operations between the United States, Europe, and Asia. During 1994 all major Japanese banks are expected to establish "trilateral operational systems" like those of Sumitomo and Sakura.

Two strategic companies in the **Nomura Securities** group currently specialize in derivatives, according to the 13 April NIKKEI KINYU. They are **Nomura Option International**, established in London in 1990 to manage risk and to "globalize" Nomura's stock derivatives business, and **Nomura Capital Service**, which entered the over-the-counter derivatives market in 1992. Nomura Capital Service deals in highly-liquid derivatives such as interest rate and currency caps and floors and "swaptions" (an option to enter into or cancel a swap).

According to the 12 April NIKKEI KINYU, the **Industrial Bank of Japan (IBJ)** stationed a "capital markets task force" in its New York branch in 1991 to nurture its derivative business "though local expertise." The branch's FY93 revenues reportedly grew by 50 percent over FY92. In Japan IBJ has concentrated its efforts on the derivatives market, according to the 11 March NIKKEI KINYU, because it believes "banks can no longer survive on profits from traditional lending" and "expansion cannot occur without taking derivatives into account." The chief of IBJ's "financial products development division" visited more than ten regional banks recently to discuss derivatives. He is also aggressively encouraging corporations to use them as well, holding more than 400 meetings with companies during which he analyzes the companies' financial risk position caused by interest and currency rate fluctuations and suggests ways to reduce such risk through derivatives. IBJ's "international investment division derivative team" earns half the division's annual revenues from derivatives transactions.

The Bank of Tokyo, anticipating a growing need for companies to be able to compensate for fluctuations in interest and exchange rates in their operating localities, is increasing capital investment and the number of personnel at its London and Hong Kong securities subsidiaries to enhance sales of swaps and options, according to the 7 April NIKKEI KINYU. The bank has already doubled its capital investment in **Bank of Tokyo Capital Markets** in London and will double its number of personnel by 1995. Likewise, it has tripled capital investment in its Hong Kong subsidiary, **BOT International (HK)**, and plans to increase personnel from the current 50 employees to 70.

For **Sanwa Bank**, derivatives have been a "strategic area" for roughly a year, according to the 24 March NIKKEI KINYU. The bank is steadily building up its derivatives operations by more than quadrupling the number of domestic employees responsible for derivatives by the end of April 1994, bringing its worldwide derivatives contingent to over 130 people. Sanwa has established derivative-support task forces at its marketing offices and a task force of specialists at its Tokyo headquarters to work together in response to the growing demand for derivatives. With the increased manpower, derivative transactions have doubled from 15 to 30 per month.

According to the 23 March NIHON KEIZAI SHIMBUN, **Fuji Bank** is currently considering establishing a branch or subsidiary in Hong Kong through its U.S. subsidiary to specialize in derivatives, and has already decided to increase capital investment in its Hong Kong securities subsidiary to expand derivatives operations.

Derivatives Business Stimulates Computer Systems Development

NCI Systems Integration Inc., established by Nippon Steel Corp. in 1988 to develop financial computer systems, is rapidly expanding its derivative-product systems, according to the 23 March NIKKEI KINYU. To date it has developed some 40 financial systems and earns roughly 500 million yen ($4.76 million) annually from developing derivative systems for major commercial, long-term credit, and trust banks.

The **Bank of Tokyo** is focusing its efforts on software systems for large corporations where derivative transactions are on the rise, according to the 29 March NIKKEI KINYU. It has

developed and begun marketing new software which accommodates currency exchange options data into a personal computer. With the new software, it is possible to account for profits or losses on a currency exchange and calculate the settlement amount before the transaction settlement date.

Tokai Bank will introduce a new on-line system in the fall of 1994 that connects all its overseas branches and can calculate the "mark-to-market" price of currency futures contracts, according to the 10 March NIKKEI KINYU. The system already connects London, New York, and Tokyo. The bank currently is expanding it to Singapore and Hong Kong and, in the future, will expand it to Los Angeles and Frankfurt. The system is notable for its derivative risk management capabilities because it is able to calculate the "mark-to-market" price of derivatives at the end of every trading day.

In another computer-system related development, according to the 17 March NIKKEI KINYU, foreign exchange brokers on the Tokyo exchange are introducing local area networks (LANs) to enhance their derivative product information systems. Last year **Tokyo Forex Co.**, Japan's largest foreign exchange broker, which is affiliated with Tokyo Tanshi Co., set up a LAN that connected over 100 trading terminals of the two companies. **Ueda Harlow Ltd.**, a subsidiary of Ueda Tanshi Co., established a LAN network connecting Tokyo, Hong Kong, Singapore, and Sydney and this year will complete the network by connecting these overseas offices with Ueda Tanshi. According to its planning office, **Nittan AP Co.** is currently considering introducing a LAN as well.

Insurance Companies Offer Products To Cover Derivatives

Japan's largest nonlife insurance companies--Tokio Marine & Fire, Yasuda Fire & Marine, Mitsui Marine & Fire, and Sumitomo Marine & Fire--are entering the financial insurance business, according to the 10 March NIKKEI KINYU. Currently, foreign financial institutions are reluctant to engage Japanese firms in derivatives transactions due to their declining credit ratings and the concomitant credit risk. With a "credit guarantee" on a derivatives transaction from a triple A-rated Japanese insurance company, the credit risk is reduced, which allows foreign firms to tap into the the growing demand for derivatives in Japan.

Tokio Marine & Fire Insurance, Japan's largest nonlife insurer, recently signed a "credit guarantee contract" on derivatives transactions with two European banks, according to the 12 April NIKKEI KINYU. Reportedly this is the first use of such a "credit guarantee" in Japan. Under the terms of the contract Tokio Marine will guarantee the payment of principal and interest involved in the derivative transaction to the European bank if the Japanese company or bank that is the counterparty to the derivative transaction defaults. In return, the company will receive a guarantee fee from the foreign bank. Tokyo Marine anticipates that this "credit guarantee" will become a powerful new source of business.

Yasuda Fire & Marine Insurance, Japan's second largest nonlife insurer, is building a structure to monitor and undertake such guarantees, according to the 10 March NIKKEI KINYU. Although it has not entered into "credit guarantee" arrangements in Japan to date, and for the time being will simply manage swaps, Yasuda in April will upgrade its financial insurance section into a separate division and double the number of personnel. NIKKEI KINYU pointed out that the yen-related interest rate swap market Yasuda is entering totaled $700 billion as of the end of 1992, "an eighteen-fold increase over the 1987 figure."

According to the same article, **Mitsui Marine & Fire Insurance**, Japan's third largest nonlife insurer, began its derivative insurance business in February. According to the 14 October 1993

NIKKEI, through an agreement with Goldman, Sachs & Co., Mitsui established **Goldman, Sachs, Mitsui Marine & Fire Derivative Products** to learn "cutting-edge financial techniques" and enhance its know-how of derivatives.

Sumitomo Marine & Fire Insurance, Japan's fourth largest nonlife insurer, has established a tie-up with **General Electric's Financial Guarantee Insurance Company** to exchange personnel and know-how concerning financial insurance, according to the 8 February NIKKEI KINYU.

Tokyo Exchange May Relax Regulations To Attract Asian Companies

The Tokyo Stock Exchange is considering relaxing regulations governing listings on its foreign section to encourage companies, especially Asian companies, to list there. With an increasing number of American and European companies applying to delist from the exchange because of its low trading volume, and with exchanges in the United States and Europe encouraging Asian companies to list with them, the Tokyo exchange fears it will be left out of the world's capital markets.

There has been no new foreign listing on the Tokyo exchange since February 1993, while some 22 foreign firms have delisted since last year. In mid-March, the exchange dispatched a group to China and other Asian nations to survey their accounting and company oversight systems. Based on the group's findings, the exchange is hammering out a policy to stimulate new listings.

Currently foreign listing restrictions tend to hinder Asian companies from listing on the Tokyo exchange. According to exchange rules, a foreign company's stocks must be listed for a minimum of two years at home before it can be listed. Also, the minimum asset and profit requirements companies must meet before they can be listed are too large for Asian companies, which tend to be smaller than their U.S. and European counterparts. As a result, the Tokyo exchange is using the New York Stock Exchange as its reference point in "thinking about fundamentally relaxing regulations so that more Asian companies can list there." (Tokyo NIKKEI KINYU SHIMBUN 5 Apr 94 p 1)

Foreign Trade and Investment

CHINA

Sony To Reimport Camcorder Parts From Shanghai Joint Venture Firm

Shanghai Suoguang Electronics Co. Ltd., a joint venture company created between Sony and Shanghai Jiaodian Co., China's largest electronics manufacturer, has begun "reexporting" camcorder "mechanical decks" to Japan. Sony originally planned to export camcorder parts from Japan, assemble finished camcorders at Shanghai Suoguang, and sell them in China. However, the Chinese Government has delayed lowering the 75 percent tariff on imported Japanese parts, making this plan unprofitable.

Because there are no Chinese tariffs on parts used in products that will be reexported, Shanghai Suoguang now plans to use the parts to assemble 100,000 mechanical decks annually

and reexport them to Sony Koda, a Sony subsidiary based in Aichi Prefecture, where they will be incorporated in Sony TR303 export model camcorders. (Tokyo NIHON KEIZAI SHIMBUN 5 Apr 94 p 11)

SMS Technologies Establishes Joint Venture To Make Switching Devices

SMS Technologies, a mid-sized electronic-parts trading company located in Tokyo, in conjunction with the Shanghai Tape Recorder Factory, a Chinese state-run electronics company, will establish a joint venture company to manufacture standardized switching power sources for use in TV sets and fax machines. The joint venture company, as yet unnamed, will be capitalized between $800,000 and $1 million and will be collocated at Shanghai Tape Recorder Factory's facilities outside Shanghai. It will employ 200 workers and is scheduled to begin producing about 200,000 power sources per month in 1995.

Thirty percent of the new company's output will be sold to the Shanghai Tape Recorder Factory and other Chinese companies, while the remaining 70 percent will be exported to Japan and the United States. By creating this joint venture, SMS will create a "relatively low-cost" part procurement structure and will "strengthen its ties with Chinese state-run companies." (Tokyo NIKKEI SANGYO SHIMBUN 4 Apr 94 p 8)

KAZAKHSTAN

Business Agreement Between Japanese Insurance Firm, Local Company

Sumitomo Marine & Fire Insurance, Japan's fourth largest nonlife insurance company, concluded a "cooperative business agreement" on 6 April with a major insurance company in Kazakhstan, according to the 7 April NIHON KEIZAI SHIMBUN. The move by Sumitomo sets a precedent among Japanese nonlife insurers, since it will be the first agreement by a Japanese insurance company in any Central Asian republic and it will be a precursor to future agreements in the other Central Asian Republics. Sumitomo plans to conclude a similar arrangement in Uzbekistan during 1994.

Although Kazakhstan does not permit foreign insurance companies to operate independently, because of the huge amounts of insurance required for large projects, it has decided, in this case, to allow Sumitomo to reinsure the local company and to determine for itself the insurance premiums it will charge. The local firm offers primarily cargo and accident insurance. Under the agreement, Sumitomo will introduce Japanese companies entering Kazakhstan's market to the local company, will reinsure the existing policies the local company has, and will provide the local company with damage assessment know-how.

According to a 7 April NHK NEWS report, carried in the Nikkei Telecom database, Sumitomo will aggressively seek out business in anticipation of increasing demand for insurance as economic activity expands between Kazakhstan and Japan--such as the recent low-interest loan from the Export-Import Bank of Japan for energy development--and attracts more Japanese companies to the region.

RUSSIA

Japanese Retail Chain To Expand Operations in Russian Far East

Shoren, a major wholesaler of general merchandise and home electronics products headquartered in Sapporo, is cooperating with local Russian companies to expand its chain of retail stores in the Russian Far East, according to the 5 April HOKKAIDO SHIMBUN. Income from its operations in the Russian Far East already account for 2 billion yen ($19 million) of Shoren's 15.5 billion yen ($147.6 million) in annual sales of over 700 types of household products. Shoren is the first Japanese company to build a retail chain on this scale in Russia.

Shoren currently has three stores in Kamchatka and one each in Vladivostok and Yuzhno-Sakhalinsk. It plans to expand its chain by opening ten new stores within a year in Irkutsk, Khabarovsk, Yakutsk, Blagoveshchensk, Novosibirsk, and in Central Asian republics of Kyrgyzstan and Kazakhstan.

Shoren's success or failure in penetrating the Russian market, HOKKAIDO SHIMBUN observed, will influence Japan's major general trading companies as to whether they should enter the region. Likewise, the trading companies consider Shoren a "test case" amid growing interest in the Russian Far East.

UNITED STATES

Aichi Steel Works Signs Consulting Contract With Steel Firm

Aichi Steel Works, a major specialty steel manufacturer affiliated with Toyota Motor, has signed an agreement with Louisville Forge and Gear Works Inc., a Kentucky-based manufacturer of forged steel products, to provide consulting services concerning construction of a new Louisville Forge and Gear Works plant. Aichi will advise the U.S. firm on various aspects of building its new plant, including site layout, facility specifications, and product finishing processes. The new plant is still in the planning stage, and the Louisville firm has not decided on a location or a construction schedule.

Louisville Forge and Gear Works currently supplies forged steel parts to the "Big Three" U.S. automakers and "several" Japanese automakers that assemble vehicles in the United States. The firm has been working with Aichi under a technical assistance agreement signed in July 1990. The two firms also signed a technical cooperation agreement in August 1993 concerning crankshaft manufacturing. (Tokyo NIKKEI SANGYO SHIMBUN 7 Apr 94 p 10)

FEATURE: Companies Seeking To Help Vietnam Expand Steel Production

Nippon Steel and NKK, two leading steel companies are conducting several feasibility studies on behalf of the Vietnamese Government and the state-run Vietnam Steel Co. on how Vietnam might expand its steel production to meet the rapidly increasing demand. Kyoei Steel, an electric furnace steel firm, has entered into a joint venture agreement with Vietnam Steel and two Japanese general trading companies to build a steel mill in Vung Tau to produce steel rods and wire.

Nippon Steel, the world's largest steel company, and NKK, the world's fifth largest steelmaker, are conducting feasibility studies concerning the expansion of Vietnam's steel industry, according to the 11 March NIKKEI SANGYO SHIMBUN. Nippon Steel's study was requested by Vietnam's Ministry of Heavy Industry during a November 1993 visit to Vietnam by Nippon Steel's president, while NKK has undertaken its study at the request of the state-run Vietnam Steel Co. While the content of the two studies are similar, NIKKEI SANGYO noted, the NKK study focuses on the feasibility of building a steel mill in northern Vietnam, while Nippon Steel's study is not limited to operations in a specific area of Vietnam. The firms will submit their studies separately with Nippon Steel reportedly aiming to formulate its "general conclusions" about the current status of Vietnam's steel industry in March.

NKK Has Forged Close Ties With Vietnam Steel

NKK sent a delegation to Vietnam in 1991 to study the country's steel industry, according to the NIKKEI SANGYO article. A report on the visit written by Kenichiro Sekino, head of NKK's International Business Development Center, stated that while Vietnam was not ready for upgraded steel operations due to poor electricity supplies and roads, "exchanges of personnel" could begin. In 1992 NKK invited two Vietnam Steel executives to attend a 3-month training program at NKK steel mills and other facilities in Japan. In November 1992, after the executives had returned to Vietnam, Vietnam Steel requested that NKK undertake a "pre-feasibility" study concerning construction of a steel mill in northern Vietnam that would use iron ore mined in That Kei, near the Chinese border. NKK is reportedly completing its study on the site as well as on the demand for steel in Vietnam.

According to the 16 February NIKKAN KOGYO SHIMBUN, Vietnam Steel also commissioned NKK and Mitsubishi Corp. to conduct a feasibility study concerning construction of a electric furnace steel mill with a capacity to make 500,000 tons of steel billets annually at Cai Ran, located in the outskirts of Hanoi. Through an adjacent continuous casting line the billets would be made into steel bars and shaped steel products. In February 1994 NKK and Mitsubishi sent a team of experts to Vietnam to conduct a study of the Cai Ran project. Vietnam Steel now reportedly plans to begin construction of the mill in mid-1995, at the earliest, and also has plans for a similar mill to be built outside Ho Chi Minh City.

According to NIKKAN KOGYO, Vietnam's crude steel output currently does not exceed 200,000 tons, while demand is at 800,000 tons and will increase to 2.5 or 3 million tons by the year 2000. This is why rapid expansion of steel production facilities is so urgent for Vietnam, the paper noted. The NIKKEI SANGYO article also pointed to the Vietnamese Government's

desire to expand steel output despite the country's poor electric power situation and other infrastructural shortcomings.

NKK Study on Breaking Up Old Ships for Steel Scrap

NKK has also received a request from Vietnam Steel to conduct a pre-feasibility study concerning an operation in Vietnam to break apart old ships and reuse the high-quality scrap steel, according to the 15 March NIKKEI SANGYO SHIMBUN. As a result of this request, after completing its study on Vietnam's steel industry potential, NKK will then study the feasibility of establishing a facility on Vietnam's coast to break apart ships and build a "relatively small-sized electric steel mill" to melt down and process the scrap steel.

According to NIKKAN KOGYO, NKK calculates that worldwide, about 100 million tons of obsolete ships are broken apart annually, with 10 percent of this work being done in India, Pakistan, and Bangladesh. However, because of the depressed state of ship-breaking operations in these countries, this business would have "strong potential" in Vietnam. While building a blast furnace or a coke furnace mill would be extremely costly, building a small electric mill is feasible, except that Vietnam has virtually no scrap steel.

NIKKEI SANGYO reported NKK also would like to exploit the resources of its Shipbuilding Division and use tug boats to tow in a facility somewhere on Vietnam's coast at which old ships would be broken apart. The company would furnish the know-how to Vietnam Steel to build an electric steel mill near this location to melt down the scrap and equip the facility with steel rolling and other equipment.

Kyoei-Vietnam Steel Joint Venture To Produce Steel Bars

Kyoei Steel, an Osaka-based electric steel company, has received approval from Vietnam's State Committee to Coordinate Investments to establish a joint-venture steel company with Vietnam Steel, according to the 10 February NIKKEI SANGYO. The general trading companies Mitsui & Co. and Itochu also will invest in the joint venture. The new company, VINAKYOEI, will be capitalized at $20 million, with Kyoei contributing 45 percent of the total, Vietnam Steel 40 percent, Mitsui 9 percent, and Itochu 6 percent. The company will begin operations in October 1995 and plans to produce 240 tons of steel rods and wire annually.

The 10 February NIKKAN KOGYO SHIMBUN added that the new plant will be built in Phu My District, Ba Ria-Vung Tau Province, and will cost $46 million. The company's management board will consist of ten members, including four from Kyoei and Vietnam Steel and one each from Mitsui and Itochu. The board chairman will be Shuichiro Takashima, a Kyoei vice president, and the company's president will be Mitsuhiro Mori, a Kyoei executive.

Sumitomo Marine & Fire Latest Insurance Firm To Open Hanoi Office

Sumitomo Marine & Fire Insurance, Japan's fourth largest nonlife insurance company, has received permission from Vietnam's Commerce Ministry to establish a Hanoi resident office in August 1994. Sumitomo is the fifth Japanese insurance company--following Tokio Marine & Fire, Yasuda Fire & Marine, and others--to establish an office in Vietnam. The goal of all insurance firms is to provide a full range of accident settlement and insurance services to Japanese companies operating in Vietnam.

In 1992 Sumitomo concluded a business agreement with Bao Viet, Vietnam's sole national insurance company, through which it received reinsurance business. But with the rapid increase

in the number of Japanese firms setting up operations in Vietnam, Sumitomo felt it necessary to establish an office to provide information to clients and to market insurance products.

Among other Japanese insurance firms, Nippon Fire & Marine is investigating the establishment of an office in Vietnam, while Yasuda plans to open a second office--a resident office in Ho Chi Minh City--before yearend. (Tokyo NIKKEI KINYU SHIMBUN 5 Apr 94 p 2)

Japan-U.S. Relations

FEATURE: Tug of War With U.S. Over Corporate Transfer Pricing

Japan's National Tax Administration Agency (NTAA) appears to have made its first counterattack on the U.S. Internal Revenue Service (IRS) over its "aggressive" tax assessments on Japanese firms operating in the United States by ordering Coca Cola Japan to pay $143 million in back taxes, the largest assessment of its kind, according to press reports. One academic predicts an escalating tug of war between Japan and the United States over which country receives the bulk of taxes on the profits of multinational companies.

The 26 March NIHON KEIZAI SHIMBUN (NIKKEI) reported that the NTAA had ordered Coca Cola Japan, a wholly owned Japanese subsidiary of the Coca Cola Company, to pay back corporate taxes of 15 billion yen ($143 million) stemming from a recalculation of the multinational company's transfer pricing, the largest assessment it has ever imposed. The NTAA explained that Coca Cola Japan transferred profits worth 36 billion yen ($343 million), about one-quarter of its total profits, to its U.S. parent company between 1990 and 1992 by paying its parent royalties which were "higher than usual." In particular, the NTAA judged that royalties paid for canned coffee and Chinese tea products, which were the "inventions" of Coca Cola Japan, were "too high." NIKKEI noted that Coca Cola Japan intends to appeal the assessment.

Reasons Why NTAA Has 'Targeted' Coca Cola Japan

In the 29 March TOKYO SHIMBUN, Meiji University Professor Masatsugu Fujie commented that the NTAA has "targeted" Coca Cola Japan because it was relatively easy to estimate royalties for canned drinks by comparing royalties for similar products made by other companies. Another and more important reason for targeting the company, according to Fujie, is the "brand power" of Coca Cola, "the symbol of America's cultural invasion of postwar Japan." Fujie concluded that this symbolism will have "enormous" influence on other U.S. firms operating in Japan.

For these reasons, the TOKYO SHIMBUN article observed, the NTAA appears "firmly determined" to pursue what it views as Coca Cola Japan's tax evasion through inflated transfer pricing. The paper observed that the NTAA asked Finance Minister Hirohisa Fujii for approval to impose the assessment on Coca Cola Japan because of the parent firm's "political connections to the current U.S. administration." Usually, the only approval required to impose additional taxes is from the NTAA director general.

NTAA's Frustration With Aggressiveness of IRS

The 29 March TOKYO SHIMBUN quoted Hitotsubashi University Prof. Mitsuhiro Ishi as characterizing the NTAA's action as a "declaration of a tax war" against the IRS. Ishi stated that since the IRS has been "aggressively" taxing Japanese companies operating in the United States, which in turn have been receiving credits from the NTAA for the higher taxes paid to the IRS, the Coca Cola case is an expression of the NTAA's firm resolve "not to let the IRS do whatever it wants." TOKYO SHIMBUN also noted the mounting frustration within the NTAA, capsulized in the remark by an anonymous official: "How long do we let the IRS take our tax money?"

According to the TOKYO SHIMBUN article, the NTAA has not been able to effectively impose assessments based on "questionable" transfer pricing practices employed by U.S. companies operating in Japan because of legal differences between Japan and the United States. Under Japanese law the NTAA must prove that the Japanese subsidiary of a U.S. company has transferred a part of profits to its parent firm "to evade taxes," while under U.S. law a foreign company must prove it has not done this. In 1993, for example, the NTAA tried to "reinterpret" the transfer pricing policies of U.S. securities firms in Japan, which had reaped "huge profits" while all Japanese securities firms suffered losses, however, the NTAA had to give up "because it was too difficult to prove." According to the article, lack of resources on the part of the NTAA has also limited it from charging foreign firms with transfer pricing irregularities. Beginning in FY94, however, the number of auditors examining foreign firms will double from 9 to 18 in order to "more aggressively pursue" cases of tax evasion by foreign companies.

The TOKYO SHIMBUN article reported that "contrary" to the NTAA, the IRS had become "more aggressive" in reassessing the transfer pricing of Japanese companies in the United States since the spring of 1993, when the IRS introduced a rule allowing itself to assume profits on the part of Japanese companies based on the profits of U.S. companies in the same industry. The 26 March NIKKEI reported that under the Clinton administration, the IRS had "tightened up" taxation on international transfers of patent fees, royalties, and other intangible assets. In the TOKYO SHIMBUN article, Prof. Ishi also commented that the IRS "targets foreign--particularly Japanese--companies" because assessing heavier taxes on foreign firms "is the easiest way to increase tax revenues." In addition, Ishi noted the idea of "attacking" Japanese companies will be received with "political favor" by American voters.

Tug of War Over Corporate Taxes Likely To Continue

In the TOKYO SHIMBUN article, Prof. Ishi predicted that the "tug of war" over which country will receive the profits of multinational companies is unlikely to be settled quickly. One reason is the complexity of the issues concerning international transfers of profits derived from royalties, patent fees, and other intangible assets. As one example, he explained that taxes on royalties can be very difficult and complicated to calculate, and that in a broader, international context it will take a long time to reach any multilateral agreement on rules for taxing royalties. "In the absence of agreed-upon rules," Ishi concluded, the number of disputes over transfer pricing "will likely increase in the future."

FEATURE: Machine Tool Sales Languish, Firms Take Cost-Cutting Measures

Machine tool orders for January and February 1994 were down by double-digit amounts compared to 1993, and several companies reported losses for FY93, which ended on 31 March, according to press reports. Companies are resorting to a number of measures to cut costs, including moving and merging corporate offices, soliciting "voluntary" retirements, and eliminating divisions and subsidiaries.

According to the 11 March NIHON KEIZAI SHIMBUN (NIKKEI), an industry survey conducted by the Japan Machine Tool Builders' Association (JMTBA) showed total machine tool orders for January came to 37.976 billion yen, down 11.6 percent from January 1993 and also down 5.2 percent from December 1993. January domestic orders were down 27.7 percent from 1993 to 19.17 billion yen ($182.6 million). "This is the first time domestic orders have dropped below the 20 billion yen ($190.5 million) level" since JMTBA began conducting its surveys in 1983. Orders from the general machinery industry fell 31.3 percent and orders from the auto industry fell 54.1 percent. Export orders came to 18.869 billion yen ($179.7 million), down 14.4 percent year-on-year, but this total does not include overseas production.

The JMTBA's February survey, reported in the 5 April NIKKEI SANGYO SHIMBUN, showed total machine tool orders of 38.924 billion yen ($370.7 million), down 16.7 percent from February 1993. Domestic orders totaled 22.273 billion yen ($212.1 million), up from January but down 24.6 percent year-on-year. Orders from the electrical machinery, general machinery, and auto industries were down between 20 and 30 percent. February export orders came to 16.651 billion yen ($158.58 million), down 3.1 percent. Exports to Europe are still in a slump, but exports to the United States, China, and Southeast Asia were good.

Several Companies Report Losses for FY93

Press reports noted that a number of machine tool companies have reported current or "final" losses for FY93, as follows:

Hitachi Seiki--One of Japan's largest manufacturers of CNC lathes and machining centers, Hitachi Seiki reported 24 billion yen ($228.57 million) in machine tool sales in FY93, down 20 percent from the previous year, according to the 5 April NIKKEI. Current losses were 6.7 billion yen ($63.8 million) compared to 4.916 billion yen ($46.82 million) in FY92. "Final losses" for FY93 were 4.743 billion yen ($45.17 million), because the firm realized 1.5 billion yen ($14.3 million) in extraordinary profits from the sale of land and facilities in Abiko, Chiba Prefecture. The company sold the land to cover about 800 million yen ($7.62 million) in extraordinary losses related to retirement allowances for about 200 "early and voluntary retirements." Without the sale, final losses would have been greater than the 7.5 billion yen ($71.43 million) in surplus funds it had on hand as of March 1993. For FY94, Hitachi Seiki projects sales of 27 billion yen ($257.14 million) and a shrinkage of its current losses to 3.4 billion yen ($32.38 million).

Hamai--According to the 30 March NIKKEI, Hamai, which specializes in machining centers and gear-hobbing machines, is trying to emerge from insolvency. Its liabilities exceeding assets

will be 1.3 billion yen ($12.38 million) at the end of FY93. Its sales for FY93 are expected to be 4 billion yen ($38.1 million). FY93 current losses will come to 1.9 billion yen ($18.1 million), compared to losses of just under 2.5 billion yen ($23.81 million) for the previous six-month period. Extraordinary losses related to allowances for voluntary retirements will cause final losses to total 2 billion yen ($19.05 million).

Hamai hopes its operating losses can be limited to 12.5 billion yen ($14.28 million) for the September 1994 six-month settlement period. Hamai will sell stock from its investment portfolio and will sell an employee dormitory in Meguro Ward, Tokyo, to reduce its final losses to 1.3 billion yen ($12.38 million) and reduce its liabilities in excess of assets to 600 million yen ($5.7 million). Hamai is also studying raising over 2 billion yen in extraordinary profits by selling its company headquarters building and "some land" at its Ashikaga plant in Tochigi Prefecture to entirely eliminate its liabilities in excess of assets by the end of FY94.

Tsugami--A medium-sized firm specializing in computer-numerically controlled lathes and machining centers and which depends on machine tools for 90 percent of total sales, Tsugami reported sales of 9.1 billion yen ($86.6 million) for FY93, down 28 percent from FY92, according to the 5 April NIKKEI. Operating losses were 1.3 billion yen ($12.38 million). Revenues were just over 100 million yen ($952,000), but nonoperating losses were also 100 million yen. Current losses were about 1.4 billion yen ($13.3 million). This compares with current losses of 2.525 billion yen ($24 million) in FY92.

Tsugami expects a 10 percent increase in sales this year and anticipates that its rationalization efforts will reduce current losses in FY94 to about 900 million yen ($8.57 million). The 23 March NIKKEI SANGYO SHIMBUN adds that Tsugami will move its company headquarters and its sales subsidiary, Tsugami Kobai, from Shimbashi, Tokyo, to Hamamatsu, Shizuoka Prefecture, in mid-April to cut office expenses.

Nippei Toyama--According to the 1 April NIKKEI, Nippei Toyama, a leading machine tool firm that specializes in transfer machines, will incur 800 million yen ($7.62 million) in extraordinary losses associated with the liquidation of Norion Kogyo, its machine tool and industrial machinery assembly and parts subsidiary located in Yokohama City. Nippei will also incur another 550 million yen ($5.24 million) in extraordinary losses to cover special allowances involving the early retirement of 21 workers. As a result, final losses will be 3.7 billion yen ($35.24 million). NIKKEI noted that Nippei is "currently insolvent," but did not disclose the amount by which its liabilities exceed total assets.

Firms Undertake More Cost-Cutting Efforts

Press reports noted that other companies are adopting rationalization and cost cutting measures, as follows:

Toyoda Machine Works--According to the 10 March NIKKEI SANGYO SHIMBUN, Toyoda Machine Works, a subsidiary of the Toyota Motor Group, on 1 April will merge two wholly owned subsidiaries, Toyo Giken, its machine-tool design company, and High-Tech System, its software development firm, both located in Tokyo, into a new company, Toyo High Tech. The new firm will be capitalized at 38 million yen ($362,000) with Toyoda Machine Works investing the entire amount. The new company, to be located in the former Toyo Giken's office space, will employ 190 workers. Toyo High Tech expects to have 2.2 billion yen ($20.95 million) in sales in the first fiscal year.

Matsuura Machinery--According to the 23 February NIKKEI SANGYO SHIMBUN, Matsuura, a major manufacturer of high-speed machining centers located in Fukui City, Fukui Prefecture, will close two business offices in the Kanto region and consolidate their operations at its office in Taito Ward, Tokyo. The offices to be closed are its Eastern Kanto Office located in Kashiwa, Chiba Prefecture, and the Southern Kanto Office located in Machida City, Tokyo. Matsuura now will serve the Kanto region from its Tokyo office and its North Kanto office located in Kawagoe City, Saitama Prefecture.

Mitsui Seiki Kogyo--According to the 23 March NIKKEI SANGYO SHIMBUN, Mitsui Seiki Kogyo, a medium-sized machine tool company, in January moved nearly all its headquarters offices from Nihonbashi, Tokyo, to its plant in Ota Ward, Tokyo, to save an estimated 500 million yen ($4.76 million) per year in office rental and communications costs.

OKK--One of Japan's seven largest machine tool companies that specialized in machining centers and numerically controlled milling machines, OKK will extend its temporary worker furloughs, which had been in effect through March 1994, according to the 7 April NIKKEI SANGYO SHIMBUN. Between April and June OKK will furlough for a total of 12 days workers at its Inagawa plant in Hyogo Prefecture. OKK furloughed these workers for 12 days between April and September 1993, and for 28 days between October 1993 and March 1994. Since October, workers have been furloughed every Friday, a practice the firm will continue.

In addition, Mitsubishi Motors has agreed to retain 20 OKK workers temporarily assigned to its Mizushima plant in Kuraki, Okamoto Prefecture, for another six months. In October 1992, 40 workers were temporarily assigned to Mitsubishi Motors for one year, but were extended through March 1994. The current six month extensions cover only half of the workers.

Okuma--According to the 2 April CHUNICHI SHIMBUN, the prolonged recession is forcing Okuma, a major machine tool manufacturer, to streamline its organization "by eliminating four of its five divisions." The functions of its management, service, manufacturing, and technical divisions will be absorbed by its Business Division, which will be managed by company president Junro Kashiwa.

Shoun Machine Tool--According to the 2 March NIKKEI SANGYO SHIMBUN, Shoun, a company in the Yanmar Diesel Engine Group, will cut its workforce by 36 percent as of 20 June. To do this, it will solicit 92 "voluntary" retirements from workers 50 years of age or older, including workers currently on temporary assignment to Shoun Shinzaki Engineering and Shoun Seiki, both located in Kamakura, Kanagawa Prefecture. This will reduce Shoun's workforce from 254 to 162. Shoun anticipates this move will save about 500 million yen ($4.76 million) per year in personnel expenses.

Okuma To Sell Numerically Controlled Lathes in China

Okuma, a leading machine tool manufacturer, has signed an eight-year contract to provide the Shenyang Third Machine Tool Factory with the technology to manufacture its LB15 series of general-purpose numerically controlled lathes. Initially Okuma will export all parts for the lathes, which will be assembled by the Shenyang firm, but gradually the ratio of locally procured parts will be increased. The finished product will be sold in China under the "Okuma-Shenyang Third" brand.

Okuma will also set up service centers in Shanghai and Beijing by mid-April which will operate by consigning work, performed under the supervision of Okuma technicians, to the

Shanghai Machine Tool Factory and the Beijing Second Machine Tool Factory. To date Okuma has delivered more than 230 lathes to companies in China. (Tokyo NIKKEI SANGYO SHIMBUN 29 Mar 94 p 13)

Semiconductors/Computers/Electronics

NEC Wins Four New Orders for Its Cenju-3 Supercomputer

NEC Corp. has won four orders from three Japanese universities and one company for its new "Cenju-3" parallel processing supercomputer. The orders for "core basis" machines--which do not include peripheral equipment--have a combined value of about 200 million yen ($1.9 million). NEC has received a total of six orders for Cenju-3 machines. Its first order was from Kyoto University in February 1994, and the second was from the Dutch Aviation and Space Research Laboratory for joint research use with the Swiss National Supercomputer Center. Consequently, NEC now believes it will receive more than ten orders in FY94, which would place the company in "hot pursuit" of U.S. firms that make parallel processing supercomputers.

The latest orders are from Nagoya University, the University of Electro-Communications Graduate School, the Yokohama Image Transmission Technostation Co., and an unidentified private university. The Nagoya University and Electro-Communications University machines were purchased under government procurement funding, but NEC "was the only firm to submit bids."

The Cenju-3 can be configured with up to 256 "VR4400" 64-bit RISC processors capable of running at 12.8 billion floating point operations per second (GFLOPS). Yokohama Image Transmission Technostation ordered a model with 64 processors capable of 3.2 GFLOPS for use in "image processing research and development." The three universities ordered a model with 8 processors, NEC's smallest configuration, which operates at a speed of 266 million (M) FLOPS. Nagoya University will use its supercomputer to aid in research concerning the design of highly integrated circuits, and will also receive two "EWS4800" workstations and eight "color X-stations." The University of Electro-Communications will use its machine to conduct research into advanced parallel information processing, and will receive a "complete set" of peripheral equipment, including printers. (Tokyo NIKKAN KOGYO SHIMBUN 25 Mar 94 p 8)

Fujitsu Wins Contracts To Build University LAN Networks

Fujitsu has won contracts to build local area networks (LANs) at 10 national universities with funds appropriated in the Japanese Government's second FY93 supplemental budget. Having earlier won LAN contracts from eleven universities with funds appropriated under the first supplemental budget, Fujitsu now has contracts worth about 3.5 billion yen ($33 million) from 21 universities. [For information on the earlier LAN contracts, see the 1 December 1993 Pacific Rim Economic Review, Vol 2, No 24, p 14.]

Fujitsu will build Ethernet LANs connected with fiber distributed data interfaces (FDDI) for 10 universities, including Hitotsubashi University, Yamagata Medical College, and the University of the Ryukyus. Currently Ethernet and FDDI LANs are the most commonly used systems, but Kobe University (under the first supplemental budget) chose an asynchronous transfer mode (ATM) LAN.

The Ministry of Education plans to build LANs at each of the 92 public universities in Japan. At this point the ministry does not plan to link the universities together, but it does plan to connect each university LAN system to Internet by mid-FY94. Funds to build LANs at 31 universities were contained in the first supplemental budget, 28 under the second supplemental budget, and the remaining 33 universities will hold bids during March. (Tokyo NIKKAN KOGYO SHIMBUN 3 Mar 94 p 9)

TDK To Import Semiconductors From Its U.S. Subsidiary

TDK Corp., the world's largest maker of magnetic tapes and a major producer of electronics parts, is taking steps to import and market in Japan semiconductors produced by its U.S. subsidiary, Silicon Systems (SSi). On 1 April TDK set up a permanent in-house group to oversee operations with SSi. SSi's main products are integrated circuits (ICs) for hard disk drives, but the firm also makes "high technology" ICs for communications equipment, such as local area networks. TDK is strengthening its efforts to sell products such as the "passive elements" used in portable communications equipment. By combining its own products with those of SSi, TDK hopes to expand its share of the communications market.

TDK bought out SSi, a semiconductor manufacturer, in May 1989. Until now SSi's products have been sold in Japan through a representative, but TDK is assuming control of sales with the expiration of SSi's contract with the representative. SSi holds about a 50 percent share of the U.S. market for hard disk drive ICs and is promoting sales of ICs for communications equipment. TDK sees SSi's IC products as the "key" to participation in the communications equipment market. (Tokyo NIHON KEIZAI SHIMBUN 30 Mar 94 p 12)

CHINA

Domestic Developments

FEATURE: Labor Disputes Within Foreign-Funded Enterprises On Rise

Recent PRC and Hong Kong media reveal that Chinese workers have been mistreated by foreign-funded enterprises. The condition is sufficiently serious and widespread to draw the attention of the Labor Ministry.

Many foreign entrepreneurs, including Taiwan and Hong Kong businessmen who have opened factories on the mainland to take advantage of low labor costs, have ignored workers' safety and sanitary conditions. The Hong Kong monthly TANG TAI (CONTEMPORARY) reports on 15 March that foreign-funded factories in Shenzhen are filthy, noisy, and poorly lighted. According to an article in the 16 February issue of the Hong Kong biweekly PAI-HSING (THE PEOPLE), last November a fire broke out that killed 84 workers and injured 46 others in a Shenzhen factory owned by a Hong Kong company. The article also reported that dozens of workers lose fingers to accidents each year in a foreign-funded hardware factory in the same city. None of the injured workers has received compensation.

Low wages, shabby treatment, and even physical attacks against workers have also been reported by the media. According to an article in the 21 January issue of Beijing ZHONGGUO XINXI BAO, a foreign-funded enterprise only pays its workers $18 to $24 monthly and often forces them to work overtime up to 15 hours a day, including Saturdays and Sundays. The article also noted that the factory building of a foreign-funded shoe factory is so hot that the workers frequently suffer heatstroke and their home-made lunches often spoil by noon. Many foreign-funded enterprises have hired security guards to supervise the workers, who view them as "hatchet men" from the "underworld." Several female workers in one factory were hauled to a small room, stripped, and were badly beaten by these security guards after complaining about their low wages, the article continued.

Another article in ZHONGGUO XINXI BAO reported that a female worker in a shoe factory in Fujian was beaten by her boss, a Taiwan businessman, after being caught stealing two pairs of shoes. She was further humiliated by being locked up in a dog cage, the stolen shoes hanging from her chest. This same factory pays its worker $11 to $17 monthly and provides no sick leave.

According to a second article in the 16 February PAI HSING, disputes between workers and foreign-funded enterprises have intensified, and strikes have occurred in Dalian, Zhuhai, and Xiamen in the past few years. For instance, there have been over 30 strikes, the biggest involving over 700 workers, in Xiamen, an area heavily invested in by Taiwanese businessmen.

Most workers in foreign-funded enterprises do not have trade unions and the few that do exist in some enterprises are too weak to protect workers' interests. According to an article in the 8 February issue of the Beijing daily ZHONGGUO SHANGBAO, less than 10 percent of the 47,000 foreign-funded enterprises nationwide have labor unions. The article noted the following reasons for this: 1. Foreign entrepreneurs distrust labor unions and think they are troublemakers; 2. Chinese managers do not support labor unions. Their goal is to secure more

foreign capital, not to look after workers' needs; and 3. Relevant authorities do not consider it important to establish labor unions. They have been trying to accommodate foreign businessmen as much as possible and fear that labor unions might scare them away.

The article also maintained that the few existing trade unions in foreign-funded enterprises are but empty shells. They are expected to "support" management views and are not allowed to express different opinions. Some firms even spy on workers and fire those workers found to be too close to the labor union.

The labor issue has become so serious that the Labor Ministry decided to include labor disputes as one of the main targets of its comprehensive employment inspection beginning 1 April, according to an article in the 19 March Beijing CHINA DAILY. The article further noted that the Labor Ministry, concerned about the growing number of labor disputes--3,352 cases in Shenzhen SEZ alone in the first half of 1993--will investigate and punish those found guilty of illegal practices.

Planning Commission Outlines Investment System Changes

An unsound state investment system has resulted in overly large projects, an irrational investment structure, and low returns on investment. An official in the State Planning Commission disclosed that the following six steps will be taken to reform the investment system in 1994:

1. Investment projects will be categorized as competitive projects, infrastructure projects, and public welfare projects based on the efficiency, market demand, and the nature of the investment. Enterprises will be the main sponsors of competitive projects, and related capital will be raised in the market place. The state will fund infrastructure projects that reinforce central policies, but will increase enterprises and local government responsibilities. Finally, the state will finance all public welfare projects.

2. An investment risk regulatory system will be established and project initiation and approval procedures changed. For example, a legal entity must now be established before making decisions on projects and conducting feasibility studies. Legal entities will be given greater independence in decision making.

3. The central government will promulgate macroeconomic regulatory policies and define objectives. Nonetheless, in principle, both the central government and the autonomous region or provincial government will be held responsible. Provincial governments will be the main sponsors for local infrastructure construction.

4. Total investment will no longer be dictated by planned targets. Instead, the state will use indirect economic levers, such as funding, to regulate investment.

The state will no longer exercise direct control over individual investment. Provincial governments will supervise collective investments in accordance with state industrial policies and local conditions.

5. Policy funding will be separated from commercial funding. Loans for projects that are in accordance with state industrial policy can be arranged through commercial banks. Both individual legal entities and banks can make their own choices with respect to loans and will assume their own risks. The government will have a regulatory and guidance function.

6. A central policy-oriented investment funding system and a state development bank will be established.

By establishing an investment scheme that corresponds with a socialist market economy, resources will be determined by the market. Meanwhile, the state can regulate investment quantity and structure more effectively through financial means, such as using domestic and foreign loans, issuing stocks and bonds, and adjusting interest rates.

The state also plans to compile a comprehensive national index showing appropriate national and regional investment scales to help the government monitor investment activities around the country and regulate them on a timely basis. (Beijing ZHONGGUO WUZI BAO 9 Mar 94 p 1)

Bill Drafted on Transfer of Enterprise Property Rights

An official in the State Commission for Restructuring the Economic System (CRES) revealed that the preliminary draft of a bill on transferring state enterprise property rights has been drawn up. According to the official, the government encourages the transfer of small enterprise property rights and does not erect ideological barriers to the transfer of large and medium-sized enterprise property rights. The government's only concern is that no one has the ready capital to buy these new property rights.

The Deputy Chief of the Production Department of CRES, Gu Shishi, maintained that property-right transfers will not cause a loss of assets for state enterprises. On the contrary, funds derived from the transfer of assets will be extremely beneficial in adjusting the industrial structure. Gu stated that since there has always been a severe shortage of construction funds, proceeds from property-right transfers can be better utilized in more important sectors.

An official of the State Asset Management Bureau, Zheng Li, contended that proceeds from property right transfers must be used in developing transportation, energy, and other infrastructure. Zheng further emphasized the following points: State assets must undergo scientific and accurate evaluation; one-time payment is mandatory and no installment payments are allowed; ownership of assets must be clearly defined; and appropriate arrangements must be made for reemployment of workers, labor insurance, and retirement benefits after the transfer of property rights. (Hong Kong CHING CHI TAO PAO No 8, 28 Feb 94 p 27)

State Planning Commission Proposes Measures To Develop Rural Enterprises

According to the 29 March issue of Chongqing XINAN JINGJI RIBAO, the State Planning Commission recently proposed measures to accelerate development of rural enterprises. The measures are to include rural enterprises in the national economic plan to avoid irrational, low-level, duplicative projects, and blind development; to include rural enterprises in development programs for different trades areas, in the distribution of productive forces, and in resource allocation; to use credit and tax measures and information to guide rural enterprise policy; to push the development of central-western rural enterprises and improve cooperation between the east and central-western regions by taking advantages of raw materials and energy in the central-west regions to support the east, and using the superiority of funds, technology, and talent in the east to support central-western regions; and to increase funds to develop rural enterprises.

The State Planning Commission suggests that rural enterprises be allowed to retain at least 60 percent of profits to enhance enterprise fund accumulation and self-development ability and

suggests that the annual rate of increase for loans correspond to the annual planned rate of growth for rural enterprises. The commission also encourages provinces, municipalities, and regions to set up a rural enterprise development fund. Loans from international financial organizations should be used to develop rural enterprises and the state should formulate preferential policies to help rural enterprises build small industrial zones. During the Eighth Five-Year Plan, the state set up a special fund to encourage rural enterprises to increase exports, and during the Ninth Five-Year Plan the state should continue to give special loans to rural enterprises engaged in exports. National construction projects should be transferred to rural enterprises through joint development with state enterprises or by establishing enterprise groups.

Objectives Set To Establish Securitized Mortgage Market

In another step encouraging the development of debt markets, the Monetary Authority has set out objectives for establishing a domestic mortgage securitization market. A minimum credit standard will be created in this sector under a blueprint being put together to ensure Hong Kong gets the best possible credit rating for these instruments, standardized documentation, and sufficient liquidity to attract major investors. Andrew Sheng, deputy chief executive of the authority, said that the minimum credit standard will be similar to the loan standard of the U.S. Federal National Mortgage Association. The Monetary Authority is looking at the legal and regulatory implications for banks securitizing their mortgage portfolios, such as whether loans would be offloaded from their balance sheets without recourse. Banks are said to be keen to spread their risks by securitizing a portion of their mortgage assets and property developers want to offload the mortgage financing they provide to home buyers from their balance sheets. (Hong Kong SOUTH CHINA MORNING POST (BUSINESS POST) 14 Apr 94 p 1)

Shanghai GNP Grows at Annual 13 Percent in First Quarter of 1994

Shanghai's GNP in the first quarter of this year reached 42.05 billion yuan, up 13.1 percent over the same period last year; total industrial output value was 87.05 billion yuan, up 13.9 percent over the same period last year; and exports grew from month to month, up 19.9 percent over the same period last year. The economic efficiency of the municipality in the first quarter also improved at the same rate and local revenue increased by a big margin. For the first time, value added by tertiary industry overtook that provided by secondary industry. (Hong Kong ZHONGGUO TONGXUN SHE 1147 GMT 9 Apr 94)

Shortage Leads to Rising Office Rents in Beijing

According to reports from real estate agents, office rents in Beijing are the highest in the country, with monthly rents for first-class office premises set at $57 per square meter. After rising 27 percent over the past nine months, rents are also likely to rise in the future. Beijing expects that 200 to 300 multinational companies will set up offices within the next two years. By then, however, rents will have risen further because of the tight supply of offices. As an increasing number of foreign banks and financial organizations are moving to the mainland, it is believed that commercial property prices will rise by 15 to 20 percent this year. (Hong Kong MING PAO 26 Mar 94 p A12)

Yunnan To Emphasize Economic Relations With Southeast Asia

In an interview with a reporter from Hong Kong's TA KUNG PAO, Yunnan Governor He Zhiqiang said that the province will pursue an opening up policy emphasizing relations with Southeast Asia. He noted that despite a late start, Yunnan has now assumed a "leading position" in opening to the outside world. With over 4,000 km of borders, Yunnan has enjoyed healthy development of border trade with Southeast Asia and is currently working to expand it. Yunnan now has over 800 foreign-invested enterprises, of which 80 percent are associated with Hong Kong, Taiwan, and Macao. Noting that Yunnan has certain disadvantages in utilizing foreign investment compared with coastal regions, he pointed out that the province will educate cadres to expand the scope of opening up. He also said that Yunnan will put money into improving basic infrastructure such as roads and railroads. When asked about narcotics trafficking, he pointed out that this is an international problem and is not necessarily linked to Yunnan's opening up. However, Yunnan will continue its counternarcotics effort. (Kunming YUNNAN RIBAO 3 Mar 94 p 1)

Foreign Investors Wary of Value-Added Land Tax

Detailed regulations on the implementation of China's Value-Added Land Law will be announced soon, but some foreign investors and economic experts have pointed out that there are irregularities in the legislation, and investor confidence will be affected if these are not corrected. When the Provisional Regulations on the Implementation of the Value-Added Land Law were promulgated at the beginning of this year, foreign investors reacted strongly and pointed out that the tax rates were too high. Viewing different situations in different localities, the central government will announce detailed implementation regulations soon, but the results remain to be seen. Many foreign investors say that the mainland authorities did not carry out adequate research or receive enough recommendations before legislation was enacted, causing foreign investors to worry as they drew up long-term investment plans. They hope that the central government will avoid hastily promulgating the "provisional regulations," because this will cause foreign investors to lose confidence in the authority of the law. (Hong Kong ZHONGGUO TONGXUN SHE 0943 GMT 10 Apr 94)

Guangzhou's Six Measures To Increase Utilization of Foreign Capital

Guangzhou will embark on a campaign to attract more international capital, especially from major consortia in Hong Kong, Macao, Taiwan, and other countries. The measures to be taken include encouraging foreign investors to engage in the development of basic industries and urban capital construction, involving such projects as power plants, steel mills, ethylene and polypropylene plants, expressways, underground railways, light rail networks, port facilities, and a new international airport; encouraging foreign investors to help accelerate the development of service industries such as real estate, information services and consultancy, finance, and tourism; encouraging foreign investors to take part in the transformation of old enterprises, under a new policy where those helping to relocate and renovate enterprises in old urban districts will be entitled to develop real estate on their former sites; encouraging foreign investors to take part in the establishment of a large international development zone in southeast Guangzhou, occupying 219 square km; encouraging foreign investors to develop technologically advanced and export-oriented enterprises in several major fields, namely, electronics and information technology, new materials, biotechnology, energy efficiency and environmental protection, fine

chemicals, and high-tech light industry; and encouraging the construction of bases for foreign-funded production of export commodities in light industry, which aims to expand exports of handicrafts, textiles, foodstuffs, chemicals, machinery, native products, animal products, and medical and health products. (Hong Kong TA KUNG PAO 6 Apr 94 p 5)

Guangdong To Attract $10 Billion of Foreign Investment in 1994

At a work conference on attracting foreign investment, Governor Zhu Senlin said that the province will absorb $10 billion in foreign investment in 1994, which will be used to transform old enterprises and upgrade products. Foreign investors will be encouraged to develop projects in energy, transportation, communications, petroleum, chemicals, iron and steel, electronics, autos, high technology, and agricultural products earning foreign exchange. Last year, Guangdong accounted for 26 percent of the foreign capital invested in China. (Hong Kong TA KUNG PAO 1 Apr 94 p 7)

Shenzhen's Exports, Investment, Foreign Trade Grow by 20 Percent

According to data supplied by the Shenzhen Statistics Bureau, major economic indexes in the first quarter of this year displayed growth rates in excess of 20 percent. Total industrial output value was 13.912 billion yuan, up 33 percent over the same period last year, of which the output value of exports was 5.819 billion yuan, up 15 percent, and foreign-invested industrial output value was 9.068 billion yuan, up 43 percent. Investment in capital construction was over 3.1 billion yuan, a rise of nearly 42 percent. The total volume of retail sales was over 4.7 billion yuan, more than 40 percent higher than the same period last year, and the volume of foreign trade exceeded $3.35 billion, up more than 40 percent, of which exports increased by 30 percent and imports by more than 50 percent. (Beijing ZHONGGUO XINWEN SHE 1133 GMT 9 Apr 94)

Xiamen Woos Foreign Capital for Designated Projects

Xiamen has decided to promote the participation of foreign investment in the following five projects this year: 1. the Xiayu Bonded Zone, which aims to attract multinational companies and trading firms to carry out entrepot and transit trade and set up bonded warehouses, 2. the Haicang Investment Zone, including port infrastructure and basic industries, 3. highway renovation, 4. investment in the transformation of old enterprises and township and town enterprises, and 5. high-tech and new-technology projects under the Torch program. Delegations will be sent to Japan, Singapore, the Netherlands, Australia, and Hong Kong in April, May, and June to invite investment in these projects. (Hong Kong TA KUNG PAO 9 Apr 94 p 7)

Hong Kong Investors Pour $1 Billion Into Tianjin in 1993

Last year, Hong Kong investors launched many investment projects in Tianjin, entailing a total investment of nearly $1 billion, according to an official from the Tianjin Economic Relations and Foreign Trade Committee. Since 1978, when Tianjin first opened to foreign investors, the city has approved a total of 3,097 Hong Kong investment projects, involving a total investment of $3.69 billion, with $2.328 billion realized. Forty percent of the Hong Kong investment projects in Tianjin are industrial ventures, with the international trade and real estate sectors accounting for 30 and 23 percent respectively. Hong Kong investors include well-known firms such as Cheung Kong, Hopewell Holdings, and New World Development. They are engaged in real estate development and the construction of power stations and warehouses. (Hong Kong MING PAO 7 Apr 94 p B1)

China's Squeeze on Imports Affects Export Trade

Re-exports to China, Hong Kong's biggest market, grew 12.7 percent to HK$18.74 billion in the first two months of 1994, down from 1993's growth of 45.1 percent in the same period. Enzio von Pfeil, an economist at S.G. Warburg Securities, said the figures indicated a cooling of the Chinese economy was taking place and cited the PRC's desire to reduce its trade deficit in 1994. Re-exports to the United States rose 19.4 percent to HK$11.94 billion, and those to Japan rose 25.9 percent to $3.52 billion. Re-export trade with the UK also rebounded 30.3 percent to HK$1.88 billion. (Hong Kong SOUTH CHINA MORNING POST (BUSINESS POST) 14 Apr 94 p 2)

Imports of Capital Goods Rise in January

Hong Kong's imports of capital goods rose 22 percent by volume year on year with notable increases in office machines and electrical machinery. The import volume of raw materials rose and semi-manufactures rose 37 percent compared with January 1993. However, considerable decreases were recorded in domestic exports with footwear dropping 23 percent and textiles and related articles falling 16 percent. Total exports increased 29 percent by volume while imports grew by 26 percent. (Hong Kong HONGKONG STANDARD (FINANCIAL REVIEW) 13 Apr 94 p 2)

Steel Firm To Use Hong Kong as Base for Regional Expansion

Zhou Guanwu, a director of the Beijing-based Shoudu Iron and Steel Corporation, says that the corporation plans to establish a company in Hong Kong to expand its interests in Southeast Asia using the territory as a base. After reviewing Shoudu's previous experience of investing abroad, Zhou said that the company will focus the next stage of its investment in Southeast Asia because of the region's exceptional growth. Zhou said Shoudu will set up a holding company and will seek partners and investment projects appropriate to its characteristics and resources. (Hong Kong WEN WEI PO 15 Mar 94 p A2)

Contracts Signed With China During Berlin Mayor's Visit

Berlin Mayor Eberhard Diepgen recently led a trade delegation to Beijing, Shanghai, and Shenzhen. The delegation signed 12 contracts with Chinese parties worth a total of 200 million Deutsch marks. The projects are in traffic control, packaging, environmental protection, infrastructure, and high-speed railways. (Hong Kong WEN WEI PO 12 Apr 94 p A3)

Hutchison To Manage Zhuhai Port

Zhuhai Port Investment Company and Li Ka-shing's Hutchison Whampoa Zhuhai Port Investment Company Limited officially have signed an agreement to establish a joint venture for the management of two berths at Zhuhai Port. An equal share will be held by each partner. The project is the first of its kind at Zhuhai Port, and its main function is to handle containers and bulk goods with a planned capacity of 950,000 tons a year. Construction of the facilities are under way and are expected to become operational in July this year. (Hong Kong WEN WEI PO 10 Apr 94 p A5)

Hutchison Invests 2.5 Billion Yuan for Share of Port Project

The Shenzhen Port Buildings Headquarters has sold a 70-percent stake in the first and second stages of Yantian Port to Hutchison Whampoa for 2.5 billion yuan. Construction of six berths

has been completed, and 1.2 billion yuan has already been invested in the first phase of the port project. When Yantian Port opened in 1992, Shenzhen invested more than 1 billion yuan in the first stage of the project with most of the capital provided by loans from the Japanese Government and Tokyo finance houses. The six berths are projected to handle 200,000 twenty-foot equivalent units each year. Shenzhen Port Building Headquarters will also sell rights to the second stage of the port (including land use rights) for 1.3 billion yuan. The second stage will include three container berths and construction will begin when the first stage reaches 70 percent of its designed capacity. (Hong Kong MING PAO 18 Mar 94 p A11)

Li Companies To Operate Power Stations in Guangdong's Nanhai

Cheung Kong (Holdings) Limited and Hutchison Whampoa Limited, both controlled by Li Ka-shing, have concluded an agreement with Guangdong's Nanhai Power Station A and the Nanhai Nantang Power Company Limited on the joint operation of four power plants. Total investment in the initial projects will be $200 million, while $57.98 million will be spent on the second phase. (Hong Kong TA KUNG PAO 29 Mar 94 p 25)

French Loan To Fund Water Supply Project in Xiamen

Fujian's Xiamen has obtained a loan from France to expand its drinking water supply capacity. The city will use the loan to import water supply equipment from the Paris-based Degremont Group to enlarge the capacity of its water plants from 30 to 50 tons a day. The $13.6 million loan is the first of a batch of loans promised by the French Government this year. An official at the French embassy said five or six other Chinese cities will also receive official loans from Paris to renovate their water supply systems. Additional loans will be made for communications and paper manufacturing projects, the official said. (Beijing CHINA DAILY 9 Apr 94 p 3)

Japanese, ROK Banks Fund Steel Plant in Guangzhou

The Guangzhou International Trust and Investment Company Limited has agreed on terms for a $48 million loan to build the Zhujiang Iron and Steel Plant. Banks involved in providing the syndicated loan include Dai-Ichi Kangyo Bank, Fuji Bank, Industrial Bank of Japan, Sakura Bank, Bank of Tokyo, First Finance Company Limited of South Korea, Daiwa Overseas Finance Company Limited, and Aomori Bank. (Hong Kong TA KUNG PAO 23 Mar 94 p 5)

MING PAO Parent in Sichuan Light Rail System

CIM, the parent company of leading Hong Kong daily MING PAO, has signed a letter of intent with the Chinese Government to build a 550-million yuan elevated light rail system in Chongqing, Sichuan. Mainland sources said a joint venture was expected in the coming months between CIM and the municipal government, but equity holdings in the new company had yet to be finalized. Sources said an initial blueprint for the project envisaged 11 kilometers of track with an estimated construction cost of 50 million yuan per km. (Hong Kong HONGKONG STANDARD (FINANCIAL REVIEW) 14 Apr 94 p 2)

Chartered Bank To Open Representative in Chengdu

The Standard Chartered Bank has a favorable view of the development prospects for southwest China and plans to open a representative office in Chengdu, the bank's eighth office in mainland China, according to a Beijing-based executive of the bank. Since its China desk was

established in Hong Kong in 1986, Standard Chartered has lent $1.2 billion to projects in China. (Beijing ZHONGGUO XINWEN SHE 1135 GMT 8 Apr 94)

Foreign Capital Sought To Construct Aviation Fuel Stations

The China Aviation Fuel Corporation has decided to introduce foreign capital this year to construct a number of aviation fuel supply bases. The company plans to modernize or build almost 100 facilities over five to seven years, which will require investment of 4 billion yuan. However, lacking adequate capital, the company has signed letters of intent with British and French oil firms on the joint construction of fuel supply facilities in northern, eastern, central, and southern China. In the near future, the company will build bases for imported oil in Tianjin, Shanghai, Guangzhou, and Beihai. The project includes the construction of 620,000 square meters of fuel transit stations and 294 km of pipelines. On completion of these facilities, China's aviation fuel supply will grow to 3.4 million metric tons in 1995 and 7.5 million metric tons by the year 2000. (Beijing ZHONGGUO XINWEN SHE 0723 GMT 4 Apr 94)

Hong Kong-Based PRC Firms Invest in Shanghai-Nanjing Expressway

A consortium comprising Chinese-funded companies based in Hong Kong and led by the Bank of China Group will invest 6.2 billion yuan to build an expressway between Shanghai and Nanjing. An unidentified company from Southeast Asia will have a 40-percent holding. Since construction began in 1992, Jiangsu Province has invested 1.8 billion yuan in the project. Members of the consortium include the Bank of China Group, China Travel Service (Hong Kong) Limited, and China Resources Limited, who, together with the foreign partner, will form the Jiangsu Nanjing-Shanghai Expressway Construction Company. The operational term will be 20 years from the date of completion. There are 360 bridges along the Jiangsu section of the Nanjing-Shanghai expressway, and a total of 17 construction teams are involved in the project. The expressway is expected to open in mid-1996. (Hong Kong MING PAO 21 Mar 94 p A10)

Pacific Concord To Invest 6 Billion Yuan in Retail Sector, Housing

Hong Kong's Pacific Concord Holdings Limited will have invested 6 billion yuan in mainland China by the end of 1997 and is set to far exceed its original plan to set up a chain of 30 department stores. Chang Hung, the group's director in Beijing, said that this was in accordance with the present development of the group's business. Chang also said that the firm's Concord Aoguang Commercial Building in Beijing will be ready for leasing at the end of June. Concord invested almost 400 million yuan in the complex, which will provide 28,000 square meters of floor space. By 1997, the Concord Commercial Town in the downtown area of Wangfujing will be completed. It will have 100,000 square meters of floor space and will contain the third department store set up by Pacific Concord in Beijing. Pacific Concord has run the joint venture Lei Meng-Concord Department Store in Beijing since 1991 and experience gained from this is being used in the operation of six department stores in Chengdu, Xian, Shanghai, Ningbo, and Xiamen. The company plans to set up more stores in the downtown areas of other major cities. At present, large malls funded by Pacific Concord are under construction in Shenzhen and Zhuhai. In addition, the group has real estate projects in Shanghai, Suzhou, Shenzhen, Zhuhai, Guangzhou, Shenyang, Dalian, Chengdu, and Wuhan. The group is also constructing office buildings and apartments in Jiuxianqiao in the eastern suburbs of Beijing, involving an investment of 400 million yuan. (Hong Kong WEN WEI PO 5 Apr 94 p B5)

Japanese Firm To Supply Coal Handling Equipment

The Tomen Corporation of Japan has signed a $96 million contract with the China National Technical Import and Export Corporation to supply equipment for a coal terminal in Qinhuangdao, Hebei. The equipment includes dump trucks, ship loaders, and computer control systems for the Fourth Coal Terminal, a key construction project incorporated in the Eighth Five-Year Plan. The equipment will be manufactured by Mitsubishi Heavy Industries and financing will come from the Japanese Overseas Economic Cooperation Fund. The port plans to expand capacity from the current 60 million tons to 90 million tons in 1996. (Beijing CHINA DAILY 7 Apr 94 p 2)

ELF Aquitaine Invests in Chemicals, Pharmaceutical Sectors

Elf Aquitaine, France's biggest investor in China, is poised to strengthen its presence in the oil, chemical, and pharmaceutical sectors by launching joint ventures with Chinese partners. Michel Labie, Elf's representative in China, said the company's biggest global investments will be in China "in the next few years," adding that this was "the strategy of our group."

Atochem, the chemicals division of Elf, has been studying a proposal for a $2.1 billion joint-venture refinery in Jinshan, Shanghai. Elf is set to take a 70-percent stake and the Shanghai municipal government and Shanghai Petrochemical Co. Ltd will hold the balance. The joint venture would be the biggest refinery in China, with a capacity of 8 million tons. A feasibility study is expected to be completed in July, which will then be handed over to the State Planning Commission for approval. In addition, Sanofi, Elf's pharmaceutical division, is negotiating with a Shanghai pharmaceutical factory to set up a $20 million joint venture in the Pudong New Area. An agreement is expected to be signed in October. In 1993, Elf companies had sales of $295 million in China, up from $240 million in 1992. (Beijing CHINA DAILY (BUSINESS WEEKLY) 10-16 Apr 94 p 8)

Singapore Firm Invests in Suzhou Tourism Area

The Suzhou Panmen Tourist Development Company and Singapore's Landmark Pte (Private) Limited are cooperating to develop the Panmen tourist area. The first phase of the project involves a 600 million yuan investment, and the tourist area covers 23.3 hectares. (Beijing ZHONGGUO XINWEN SHE 1149 GMT 2 Apr 94)

Merrill Lynch, Sanyo Invest in Anhui

Six international companies including Italy's Meloni, Japan's Sanyo, Hong Kong's Allied Group, and Merrill Lynch from the United States are investing in Anhui. Meloni plans to build a washing machine factory in cooperation with the Hefei Meiling Company, involving a total investment of $29.8 million. The factory will turn out 300,000 machines with an annual output value of 1.25 billion yuan. A number of Japanese companies led by Sanyo have decided to set up a plant with the Hefei Washing Machine Factory, which will produce automatic "intelligent" washing machines. The project, which involves a total investment of $13 million (not including the factory building and technology), will produce 400,000 machines each year, with an output value of 1.2 billion yuan. Meanwhile, Merrill Lynch, one of the largest securities companies in the world, has signed an agreement with Anhui's power, energy, and communications departments concerning direct investment of up to $5 billion. (Hong Kong WEN WEI PO 26 Mar 94 p A8)

Sino-UK Telecommunications Firm To Increase Output

According to Simon Roper, managing director of Shanghai International Digital Telephone Equipment Company Limited (SIDTEC), a Sino-British joint venture, the firm's annual output will reach 300,000 lines when it expands to a new plant in the Jinqiao Export Processing Zone in the Pudong New Area at the end of this year. Roper said that the company, established in 1989 with an initial investment of $10 million, would continue to upgrade technology and localize the supply of materials. In August 1993, SIDTEC became China's first foreign-funded joint venture to pass ISO9000 quality appraisal and in November received its BSI quality certificate from the UK. (Beijing CHINA DAILY (BUSINESS WEEKLY) 3-9 Apr 94 p 4)

Volkswagen, U.S. Technology Firm To Invest in Hainan

Volkswagen's representative in China recently signed a contract in Haikou to invest 120 million yuan to set up a plant in the Haikou Bonded Zone to manufacture high-performance autos. Aptronix, a leading U.S. company in the fuzzy technology sector, also plans to set up a joint venture in the zone and invest 200 million yuan to produce fuzzy logic electronic controls. (Beijing ZHONGGUO XINWEN SHE 0826 GMT 8 Apr 94)

Fujian Company Provides Labor Services Overseas

Since its establishment in 1989, the Fujian Company for Cooperation in Communications and Labor Service With Foreign Countries has established commercial relations with Singapore, Japan, the United States, Thailand, Canada, Cambodia, Papua New Guinea, Taiwan, and Hong Kong. This company has opened up markets in Hong Kong, Singapore, and Japan and has supplied 3,000 seamen, forming a complete organizational and management system. Since 1990, the company has cooperated with the relevant department in Taiwan to send 500 fishermen to Taiwan each year to operate in Singapore, Mauritius, and Brazil. The company has also contracted for marine services at the new airport in Macao. (Beijing ZHONGGUO XINWEN SHE 0922 GMT 1 Apr 94)

Taiwan

KMT-Run Enterprise To Build Power Plant in Indonesia

Yueh Sheng Chang Corporation, a KMT [Kuomintang]-run enterprise, plans to cooperate with a Japanese company to build a thermal power plant in Java, Indonesia. The National China Petroleum Corporation of Taiwan also plans to cooperate with Indonesia to lay 100 kilometers of pipeline from Musi to Dumai in Sumatra. Indonesia will pay for its investment with oil exported to Taiwan. The amount of investment for the two projects will be about $200 million each. An official in charge of Taiwan's KMT-run enterprises said further negotiations are necessary before a final decision can be made. (Taipei CHING-CHI JIH-PAO 4 Apr 94 p 2)

1993 Overseas Investment Increases 41.7 Percent Over Previous Year

According to the Ministry of Economic Affairs, Taiwan's 1993 direct overseas investment was $2.4 billion, an increase of 41.7 percent increase over the 1992 level. This was the first rise after three consecutive years of decline. (Taipei CHING-CHI JIH-PAO 31 Mar 94 p 2)

NORTH KOREA

Average Wages for Workers Reported

According to a Korean Development Institute study, North Korean workers' wages are not as low as generally believed. Using 1990 as a standard year, the study shows that a North Korean worker's marginal productivity salary was $1,046 a year or $87 a month. However, the actual wage standard set for each worker was 1.7 percent higher; it was, and still is, $150 per month. (Seoul HANGUK ILBO 26 March 94 p 8)

DPRK Obtains Foreign Currency Through 'Foreign Exchange Shops'

North Korea has been operating "foreign exchange shops" to obtain foreign currency from foreigners and North Koreans returning from overseas. There are about 20 such shops in Pyongyang alone, as well as others in cities such as Nampo and Kaesong. Most of the goods sold in the shops are imported from Japan, Russia, Hong Kong, and China, while domestic products, such as cigarettes and liquor, account for only about 10 percent of the merchandise. To make purchases at the shops, North Koreans are required to use vouchers bought with foreign currency ($1 is equivalent to 2.15 won in vouchers). (Seoul NAEWOE TONGSIN 17 Feb 94 pp E1-E3)

Worsening Inflation in North Korea Reported

Inflation is reportedly becoming a "serious problem" for North Korea. The currently "severe inflation" was caused by wage increases and the budget deficit that resulted from the "double price system" for grain. Prices of industrial and agricultural products (except for rice) have increased by 300-400 percent, bringing about higher prices at state-run stores. Egg and bread prices rose from 1 won to 3.5 won and from 1 won to 2 won, respectively.

Money circulation has reportedly increased since 1992, following a 43.4- percent wage increase for laborers, technicians, and office workers, a 50.7-percent increase in social security benefits, a 33-percent increase in student scholarships, and 25.2-percent and 44.8-percent increases in the government's purchase prices for rice and corn. Before 1992, the government used to pay 0.6 won for 1 kg of rice, but it is currently paying 0.82 won per kilo. In spite of purchase price increases since 1992, the government has kept the official sale price for rice at 0.08 won per kilo. (Seoul NAEWOE TONGSIN 3 Mar 94 pp E1-E2)

SOUTH KOREA

FEATURE: Research Institutes Get High-Tech Help From MIT, Stanford

The ROK press recently reported on high-tech cooperation between ROK government-funded research institutes and U.S. universities. In one instance, a U.S. university donated plasma research equipment to a ROK research institute, which will incorporate it in a plasma research facility under construction. In another case, a ROK institute and a U.S. university have cooperated on developing a computer operating system.

According to the 23 February HANGUK KYONGJE SINMUN, the Massachusetts Institute of Technology (MIT) has donated plasma research equipment to the Korea Research Institute of Standard Science (KRISS). The equipment includes high-temperature plasma containment and heat testing equipment. This equipment is being installed in a research facility, which will begin initial operations at the end of this year and enter full-scale use in the beginning of 1995. The paper reported that KRISS will spend approximately 10 billion won ($12.5 million) to set up the facility, which will be one of the two largest basic science research installations in South Korea (the other is a radiation accelerator under construction at Pohang Institute of Science & Technology, or POSTECH).

HANGUK KYONGJE SINMUN noted that KRISS has "completely reconstructed" the core part of the plasma generating equipment it received from MIT and renamed it TARA. (A captioned photo accompanying the article shows the device, which has three distinct parts, including a 2.5-meter high plasma stabilizer section, a plasma containment section, and a high-intensity magnetic field generator section.) The 27-meter long TARA will be housed in a subsidiary facility along with a 9-megawatt, large-capacity electrical generator, and radio heating equipment. The overall facility will also have high-tech diagnostic equipment that can measure the physical characteristics of high-temperature plasmas. The paper observed that the installation work seems to be 20 percent complete. Things are expected to progress quickly as domestically produced parts are brought in, starting in June. When the facility goes into service, it will mark the beginning of an era of "full-scale research to realize nuclear fusion," the "peaceful application of hydrogen bomb technology," according to the paper. The facility will not only lead to basic research about plasma production and containment, but also to developments in peripheral technologies, such as ultra-high vacuums, high-intensity magnetic fields, ultra-high temperatures, ultra-high frequencies, and development of new heat-resistant materials.

The 22 February MAEIL KYONGJE SINMUN reported another instance of cooperation between a ROK research institute and a U.S. university. According to the paper, the Electronics and Telecommunications Research Institute (ETRI) and Stanford University have jointly developed an operating system for an "indigenous" ROK multimedia workstation. The cooperative effort between the university and ETRI, which the paper reported as affiliated with the Communications Ministry, began in 1991 and will run until this July. The operating system the two developed--named Cosmos--is now undergoing testing. Currently ETRI technical staff are receiving special technical training, including performance test training, at Stanford. MAEIL KYONGJE SINMUN noted that, as soon as this is complete, the related technologies will be "transferred" to Samsung Electronics, Goldstar, Hyundai Electronics, and Daewoo Telecom. These four companies cooperated with ETRI to develop a multimedia workstation, named Combi, which they plan to start commercializing next year. They have also developed a board

with both audio and video capabilities for use with the Cosmos operating system. It is expected that the Combi workstation will use B-ISDN (broad-band integrated services digital network) terminals, which the Communications Ministry is promoting.

On 8 April, the Communications Ministry announced the development of Combi, a "multimedia personal computer," which was "developed in South Korea," according to a 10 April YONHAP item. YONHAP reported that the computer is the product of cooperation by ETRI and the four firms mentioned above, as well as the Korea Computer Research Association. The press service commented that South Korea "lacked" multimedia software and hardware, and that its multimedia applications were at "the beginning stage. The Combi team will try to develop a multimedia workstation by June 1994, YONHAP noted. It made no mention of the operating system for the multimedia workstation that ETRI has developed "in cooperation with" Stanford. It noted that the government will contribute 11.5 billion won ($14.375 million) and the companies 7.8 billion won ($9.75 million) to the workstation effort.

FEATURE: New Government Initiatives To Support Commercial S&T

Recent Seoul newspapers reported several ROK government initiatives to improve technical cooperation between South Korean research institutes, companies, and universities, and to help these facilities get better access to foreign technology. The government will reform its own R&D structure by eliminating barriers to cooperation between agencies and by making their research results commercially available. Measures are also being enacted to facilitate "indirect" acquisition of foreign technology as a substitute for licensing and to build up a "technological infrastructure" through various subsidies, including aid to universities cooperating with industry. Underlying the enterprise are efforts to improve control and dissemination of technological data.

The ROK Government is behind new measures to stimulate commercial S&T development by improving the distribution of technical data and by creating synergistic structures where researchers of different affiliations meet to share ideas and train new personnel, according to Seoul newspaper reports. Included among these is a plan reported in the 16 March CHONJA SINMUN for the S&T Policy Management Research Institute to enact a "System of National S&T Reform" that will enable South Korea to build a "technology development strategy for the new economy" by revising the S&T budget system, "pooling" research, and setting up an "R&D commercial product market."

The plan would "transform the national R&D project structure, which at present is conducted by each agency separately, into three types: state-run projects of the top-down style, balanced state-run projects that combine top-down and bottom-up styles, and basic state-run projects of the bottom-up style." CHONJA SINMUN explained that this would involve reversing the usual procedure of allotting a general S&T budget and deciding later on particular programs. The plan reportedly calls for a greater amount of integration and control of the agencies involved in R&D, to include evaluating and providing information on products that result from government research through an "R&D product market." It would also establish a "National Agency for Technology Management" to maintain consistent S&T policies, eliminate duplication of effort, and stop interagency rivalry.

In addition, the 16 March CHONJA SINMUN reported the ROK Government is enacting measures to import more foreign technology by standardizing laws on technology imports, giving tax breaks to firms importing certain types of technology, and relaxing restrictions on foreign capital. The government will also take steps to eliminate "overdependence" by ROK companies on licensed technology and put more effort instead into "indirect technology transfers through direct investment." The newspaper went on to report the substance of a study by the Korea Institute for International Economic Policy (KIEP) recommending that government and industry work together to "manage the whole technology transfer process" by building a database of information on technology transfer, organizing data distribution systems, and creating specialized "service agencies" that supply technology transfer data. KIEP, a government think tank whose recommendations often impact on policy, cautioned that without an effective technology import plan it would be difficult for South Korea to continue selling products in advanced countries. The government must also become better at "managing information so that effective technology transfer can be possible."

The 17 March MAEIL KYONGJE SINMUN also reported that the ROK Ministry of Trade, Industry, and Energy (MOTIE) has drafted a "Law on the Formation of an Industrial Technology Base" to go into effect later this year. The proposed legislation is designed to build up the country's "technological infrastructure" by nurturing new technology, training technical personnel, modernizing research facilities, building a data distribution network, and expanding "technical cooperation" through a support base of financial subsidies and tax incentives. MOTIE's plan would have technical data held in state-run labs, private research institutes, and companies entered into a database managed by the Korea Institute of Industry and Technology Information for distribution to technology consumers (see related article on South Korean databases in this issue of PACIFIC RIM ECONOMIC REVIEW). It would also link industry and academia into a "cooperative structure" by forming "combined research centers" at all of South Korea's major universities.

According to the newspaper, such centers are already being set up at Yonsei and Korea Universities, Pohang Engineering college, and the Korea Advanced Institute of Science and Technology. The present legislation would provide government support for the centers, and beginning next year expand them to all major ROK universities. MOTIE would also establish an "industrial technology university" and develop training programs for use in universities and research institutes. In what is the same or a related development, the 9 March CHONJA SINMUN reported that the ROK's Ministry of Education is providing 200 billion won ($250 million) to support institutions designated "national policy universities" by virtue of their willingness to pursue joint research with South Korean companies. The ministry originally intended to limit the recipients to four, but is now negotiating with the Economic Planning Board to expand that number, the paper stated.

FEATURE: Developments in Database Industry Reported

Major changes are occurring in South Korea's database industry, in response to government wishes to expand access to foreign and domestic commercial technology, the Seoul press reported. The Korea Institute of Industry and Technology Information, which runs the ROK's largest database of S&T information, is upgrading and systematizing its network to improve efficiency, and has signed new access agreements with foreign database companies to support domestic R&D. In addition, the Korea Database Promotion Center has unveiled a multi-million dollar plan to promote the database industry on three fronts.

South Korea's database (DB) industry is getting a boost from initiatives recently taken by ROK government and quasi-official institutions, according to Seoul press reports. The 19 March CHONJA SINMUN reported that the Korea Institute of Industry and Technology Information (KINITI) will spend 6 billion won ($7.5 million) upgrading its KINITI-IR (Information Retrieval) system, a nationwide network that provides on-line access to "data on advanced industrial technology" stored in foreign and domestic DB's. The newspaper reported the current system, which is based on a 32MB IBM 3090-150 computer, has "limited" ability to process technical data and satisfy users' demands for information. It will be replaced by a 64MB IBM 912-411 host computer, 45MB IBM 3390-A28 disk equipment, and 64K BPS (bits per second) IBM 3745-210 communications equipment. The new installation will make the system "three times faster," use better search procedures, and provide picture data, CHONJA SINMUN said.

The October 1993 DATABASE WORLD explained that KINITI's IR data network was put into operation when KINITI was founded in 1991. Designed and built by the institute itself, the system consists of a computer, databases, and communications equipment in Seoul connected to "local information centers" in the ROK's 10 most important cities. The latter act as "nodes" linking the system to individual subscribers. The network makes available "in a systematic fashion industrial, scientific, and technological information" from foreign and domestic sources "needed by South Korean industry for R&D and technical development."

According to the magazine, the system offers information from eight foreign databases, including INSP (electricity, electronics, physics, computers, information science, control engineering), PA92 (world patents), COMP (applied and general engineering), ISMC (machine and production engineering), FSTA (foods), META (metallurgy), NTIS (U.S. government-supported research reports in science, technology, and social sciences), and BIOT (life science, genetic engineering, biochemistry). Some 18 million items of information from foreign sources were stored in the system as of August 1993 and 800,000 more are added annually. Patents-related data accounted for 9.6 million or 58 percent of the items stored. KINITI's IR allows subscribers to access 15 domestic DB's, which as of August 1993 held 1.3 million items. Two more domestic databases on commerce and trade, and "R&D data" were scheduled to be added at the end of 1993, the magazine noted.

In a related development, the 11 March CHONJA SINMUN reported that KINITI signed agreements with two more international DB services--the Scientific Technical Information Network (STN) and the Chemical Abstracts Service. STN was reported to be operated by U.S., German, and Japanese companies, and to cover more than 160 scientific and technological fields. According to the newspaper, ROK database users who had been paying high prices for these services will now be able to obtain "high-quality S&T data" cheaply. CHONJA SINMUN also

reported on 21 March that in May, South Korean subscribers to the Korea Research Computer Network, a system run by the Ministry of Science and Technology's Systems Engineering Research Institute (SERI), will have access to Europe Net which offers R&D data from more than 20 European countries. The network with 81 institutional subscribers (compared with 40 a year ago), is linked to INTERNET, an international computer network with some 2 million customers. One SERI official reportedly called the system a "magic box" for South Korean S&T development.

The 21 March CHONJA SINMUN also reported the Korea Database Promotion Center's (DPC's) announced plans to build a foundation for developing the domestic DB industry by more effectively managing data from public sources and by systematizing data distribution routes. The plan, with a budget of 1.17 billion won ($146 million), divides the database industry into three sub-fields: government-funded databases, the general database industry, and "public" databases. The first of these will benefit by a DPC-hosted seminar in June to give private companies an opportunity to express their views on how government database policies should develop, and by a second international database show held in Seoul between 12-15 September. DPC will also form, disseminate, and encourage use of standards relating to fees, classification techniques, and search commands.

For the general database industry, DPC will promote cooperation with overseas DB companies in order to observe trends in the foreign database industry and secure channels for exchange. DPC has selected England's Computer Research Association, Japan's Database Industry Promotion Society, and the United States' Bruno Blenheim as the foreign institutions with which it will cooperate. DPC's plans for the "public" DB industry involve maintaining close relations with those businesses receiving government support for database development as provided for in the Ministry of Communications' 1993 policy on DB promotion, CHONJA SINMUN reported.

FEATURE: New ROK 'Foundation' Aims at U.S. High-Tech

The "ROK-U.S. Industrial Technology Cooperation Foundation" will begin operating in April with joint funding from the South Korean Government and businesses, according to the ROK press. The foundation's reported purpose is to reduce technological dependence on Japan through greater acquisition of U.S. technology by small and medium businesses. Some nine high-tech fields have been targeted.

In April, the South Korean Government and large conglomerates will begin joint funding of an ROK-U.S. Industrial Technology Cooperation Foundation, aiming at "transfering U.S. technology to South Korean small and medium businesses" (SMB's), the 17 March MAEIL KYONGJE SINMUN reported. Half of the foundation's 1994 operating budget of $4 million will be paid by its parent organization, the Federation of Korean Industries, and the balance by the Korea Traders Association and the ROK Ministry of Trade, Industry, and Energy (MOTIE), the newspaper stated. By 1997, the annual budget reportedly will have grown to $20 million.

According to MAEIL KYONGJE SINMUN, the new foundation will support SMB's developing technology for semiconductors, computers, machine tools, aircraft, communications, medical and environmental equipment, auto parts, and "development facilities." South Korean SMB's which invest in the United States will be eligible for up to $500,000 in low interest loans, while those forming joint ventures with U.S. firms in South Korea can receive up to $300,000.

The 17 March CHONJA SINMUN described the foundation as a "private organization" formed last February under the leadership of the Federation of Korean Industries, according to a plan agreed upon by the ROK Commerce Minister and the U.S. Secretary of Commerce in April 1993 for increased technological "cooperation" between the two countries. The newspaper cited a federation source as saying, "The foundation's activities will have the effect of reducing South Korea's technological dependence on Japan by absorbing U.S. technology, while reducing the trade friction that recently has been rising between the ROK and the United States."

FEATURE: South Korea Responds to 'Technical Trade Barriers'

Advanced countries allegedly are using exceptions in the GATT relating to environment and safety as a means of excluding ROK exports, according to two Seoul press reports. South Korea's Trade Ministry is responding by devising quality standards that will enable exporters to prepare for these "technical barriers" in advance, and is cooperating with other agencies to maintain a database on technical standards by product and country.

The South Korean Government's Industrial Advancement Administration (IAA) has concluded that "advanced countries" are using exceptions in the General Agreement on Trade and Tariffs (GATT) involving environment and safety to strengthen their "technical barriers" to ROK products, the 11 March CHONJA SINMUN reported. Identified by the newspaper as "hidden barriers" that focus on particular technologies, both CHONJA SINMUN and the 11 March HANGUK KYONGJE SINMUN (HKS) accused the United States, Japan, and other countries of exploiting the allegedly harmful effects of these technologies to exclude ROK products.

As an example, HKS cited a GATT notification prohibiting use of a "cancer-causing" dye in ROK textiles imported into Germany, and the use of PCP as a preservative. The newspaper also complained about a contradictory requirement that plastic materials imported by Denmark and other European countries pass a non-combustibility test, but that a key material used to retard flammability in the products cannot be used for environmental reasons. Similarly, the paper stated the United States is considering banning all chlorofluorocarbons products, while Canada and Japan may set limits on radiation emitted by portable communications equipment.

To combat these barriers, the IAA (part of the ROK Ministry of Trade, Industry, and Energy) is developing a comprehensive plan that includes establishing and disseminating nationwide standards for export products and building a database of regulations by product and individual country, CHONJA SINMUN reported. For goods with a high export ratio, the South Korean Government will enact quality standards to be followed by domestic industries based on the standards of the main importing countries. Individual companies will monitor their compliance with these standards themselves. For newly developed products which "have a high probability of causing bodily harm," separate safety standards will be created and the products will be subject to government inspection, according to HKS.

CHONJA SINMUN reported that the ROK Government will build a database in the first half of 1994 on "trade and technology barriers" by country and product and make this information available to domestic exporters. Finally, the Korea Trade Promotion Corporation will join with government in maintaining a system that tracks "technical barriers" set by each country. A committee will be established within the IAA to form "countermeasures" that reduce the effect of these barriers.

Samsung Electronics Indigenizes Several Technologies

Samsung Electronics has developed an indigenous point-of-sale (POS) terminal after 16 months of research and an investment of 2 billion won ($2.5 million). All parts for the terminal--except for the central processing unit--were developed indigenously. Prior to this, ROK firms had not developed a print mechanism or POS application software indigenously, but rather had to contract with Japan to obtain it. Samsung's mechanism can print out three 24-character lines per second, which is faster than the competing Japanese-made product. Having the ability to produce the software domestically will allow firms to develop programs suited to the domestic environment and to easily adjust programs as conditions change. (Seoul CHONJA SINMUN 8 Mar 94 p 5)

Samsung Electronics has also developed a thin-film transistor liquid-crystal display (TFT-LCD) for use in camcorders. This is expected to raise the competitive ability of ROK camcorder producers, which previously depended completely on imported TFT-LCD's. Samsung began its research on the product in 1991, investing 500 million won ($625,000) in the project. The company developed the TFT-LCD's using a high-temperature complementary metal oxide semiconductor process, which has also been used in Japan and England. Samsung plans to begin full production in the second half of 1995. (Seoul MAEIL KYONGJE SINMUN 18 Mar 94 p 21)

Competition for Color Printer Market Expected To Heat Up

Hyundai Electronics and Lucky-Canon have joined Samsung-Hewlett Packard (S-HP) in the color printer market. In addition, expert printer companies Kyuniks Computer and Sambo Computer will be marketing new color printer products in the first half of this year. At the same time, new printers have come on the market and their price range has dropped, from between 1 and 3 million won ($1,250-3,750) to between 400,000 and 800,000 won ($500-1,000).

S-HP's Deskjet 505K printer accounts for most of the low-price printer market, and its 400,000 won ($500) price is similar to black-and-white dot matrix printers. S-HP is working to bring in the Deskjet 1200C, but thus far has not been allowed to import it. Hyundai Electronics began marketing its recently developed dot matrix printer in January and, after only one month, had supplied more than 100 machines. The company plans to increase production and is working to improve the machine's capabilities. Lucky-Canon's BJC-600 bubble jet printer is able to handle hangul, and is the company's answer to S-HP's Deskjet 505K. Competition for sales is expected to heat up after this model hits the market. Sambo Printer, the largest domestic printer supplier, has signed an agreement with Japan's Epson to bring in printers and equip them to handle hangul. They plan to complete this and begin marketing the machine in the first half of this year. In the same period, Kyuniks Computer plans to introduce a color printer that uses a Canon engine. The ROK color printer market was very small through 1992, but in 1993 business increased, and 6,000 machines were produced each month. Beginning in October 1993, this figure climbed to 12,000-15,000. This year, production is expected to reach 150,000 machines. (Seoul MAEIL KYONGJE SINMUN 3 Mar 94 p 14)

Daewoo To Expand R&D Centers at Home, Abroad

Daewoo Automotive will expand its existing research institute in South Korea, and will set up other R&D centers in Germany, England, and the United States. The firm will invest 190 billion won ($237.5 million) through September to expand its existing research institute into a

larger general research institute, adding 500 new employees to the current staff of 1,300. In Germany, Daewoo will set up an auto technology center to promote the internationalization of its R&D sector. The center will employ 80 foreign technicians and 80 ROK technicians, and will be tasked with developing an indigenous model passenger car to be produced after 1996. Daewoo has already taken over IAD, a British automotive engineering firm, and is considering setting up automotive research centers in Detroit and Los Angeles in the United States. By setting up centers like these, Daewoo hopes to strengthen its development of advanced technologies that advanced auto makers "dislike" transferring to other firms, as well as strengthen the technical cooperation between its overseas R&D centers. (Seoul MAEIL KYONGJE SINMUN 21 Feb 94 p 11)

Statistics for First Quarter Exports Reported

ROK exports (based on customs clearance) reached $7.63 billion in March, while imports totaled $8.3 billion, according to the Ministry of Trade, Industry, and Energy. This resulted in a $665-million trade deficit for the month. For the first quarter of this year, the total trade deficit was $2.57 billion, an increase of $793 million compared to the first quarter of 1993. (Seoul YONHAP 0615 GMT 4 Apr 94)

In the same quarter, ROK car exports increased 10.1 percent over 1993 levels, according to industry sources. In March alone, car exports shot up 26.5 percent, following rises of 20.2 and 9.9 percent in January and February, respectively, compared to the same periods the year before. These increases come as a result of the economic recovery of the United States, which is a major market for ROK car exports. (Seoul THE KOREA TIMES 3 Apr 94 p 8)

KINITI To Promote Tech Transfers for Small Firms

The Korea Institute of Industry & Technology Information (KINITI) has set up a Technology Transaction Information Center to promote the introduction and exchange of technologies in and among smaller companies. KINITI said it plans to raise 5.89 billion won ($7.363 million) by 1997 to promote tech transfers. The newly established center will gather information about new products and technologies that can be commercialized, and will provide the information to local companies via an on-line computer network. (Seoul THE KOREA TIMES 2 Apr 94 p 8)

ROK-DPRK-China Shipping Route To Open in April

A Pusan-Chongjin shipping route linking North and South Korea will open around 10 April. The ROK shipping company Samson Shipping announced on 2 April that it has finalized a joint-venture agreement with Xianhu Group, a company specializing in business with North Korea. Xianhu is managed by an ethnic Korean living in Yanbian, China. The new joint-venture--Sonho Shipping--will contract with third countries for 4,200-metric ton semi-container ships and transport cargo between China and the ROK via Chongjin. Xianhu Group has exclusive rights to use Chongjin port under an agreement with DPRK authorities. (Seoul CHOSON ILBO 3 Apr 94 p 11)

ROK Firms Receive Shipbuilding Orders From Hong Kong, Canada

Hanjin Heavy Industries has received an order to build four 15,000-metric ton ships in Shanghai. The order, worth $100 million, was placed by Paraco, a Hong Kong firm. However, the Shanghai Shipping Company, the second largest shipping company in China, is known to be the actual user. (Seoul MAEIL KYONGJE SINMUN 14 Apr 94 p 11)

Daewoo Shipbuilding has received an order from the Canada Maritime Company to build two 2,200-TEU container ships that can travel through frozen seas. The order is worth $100 million. The ships will be equipped with modern devices, including global positioning system navigators and pollution prevention devices. (Seoul MAEIL KYONGJE SINMUN 11 Apr 94 p 11)

Firms Invest in Overseas Spinning Plants

The Kabul Spinning Company will increase its production capacity by building four more overseas plants. These include a $24-million investment in Jiangsu, China (subject to PRC Government approval), a $15,000 investment in Tajikistan, a $15,000 investment in Pakistan, and possibly a plant in Alabama. The Tajikistan plant will begin operating in the latter half of 1995. Kabul is still reviewing its plans for the Pakistan plant and has just secured a plant site in Benton, Alabama. (Seoul MAEIL KYONGJE SINMUN 11 Apr 94 p 10)

Taenong has begun operating its cotton spinning plant in Qingdao, China. The company invested $19 million in the plant, which can produce cotton thread, linen, as well as finished garments. (Seoul MAEIL KYONGJE SINMUN 9 Apr 94 p 9)

Daewoo Gets Financing From Exim Bank for Overseas Plant

The Korea Export-Import Bank has approved an $80-million overseas investment fund loan for Daewoo to build a car factory in Uzbekistan. The loan will carry an annual interest rate of 6.72 percent and have a 10-year payback period. The total budget for the joint venture, called UZ-Daewoo Motors, is $635 million. Daewoo and Uzbekistan's Selcho Znash will each invest $100 million and borrow the remainder. UZ-Daewoo Motors will produce 200,000 vehicles annually and export 78 percent of them to neighboring countries. In Uzbekistan, the government has taken steps to boost the project, such as lowering various taxes for the joint venture. (Seoul YONHAP 0210 GMT 13 Apr 94)

Hyundai Active in Saudi Power Plant Construction

Hyundai Engineering & Construction Co. has won an order to build an extension to the Tabuk Gas Turbine Power Plant II. The Saudi Arabian Electric Power Authority placed the order for the turnkey project, which is worth $61 million. The project will include installation of two 65-megawatt gas turbines. Hyundai will begin the project this month and complete it in two years. The company is also negotiating an order for a 110-km power cable project and two other orders worth $100 million from the same Saudi authority. (Seoul THE KOREA TIMES 14 Apr 94 p 8)

SOUTHEAST ASIA

BURMA

Joint Venture Brewery To Be Established

The Asia Pacific Brewery of Singapore and the Union of Myanmar Economic Holdings, Ltd. recently signed a memorandum of understanding to establish a $30-million brewery in Rangoon. The plant, expected to be completed in 1996, will have an annual capacity of 45 million cans of beer. (Singapore THE STRAITS TIMES 9 Apr 94 p 47)

INDONESIA

Cambodia To Use Palapa Satellite Transponder

P.T. Telkom Director Setyanto Sentosa stated that the Cambodian Government has leased a 30-channel Palapa B4 satellite transponder for television and radio broadcasts throughout the country. Cambodia's Posts and Telecommunications Minister So Khun predicts that the country will need more transponders in the coming years as the country continues to develop its telecommunications capability. (Jakarta BISNIS INDONESIA 5 Mar 94 p 1)

IPTN-Airbus Industrie Flight Test Agreement Signed

The European consortium Airbus Industrie has signed an agreement with Indonesia's aerospace industry IPTN to assist in all aspects of IPTN's N-250 turbo prop aircraft flight test program. (Jakarta KOMPAS 21 Mar 94 p 5)

MALAYSIA

FEATURE: Islamic Money Market Established

Malaysia recently established an Islamic money market, becoming the first country with a "full-fledged" Islamic banking system. Its success facilitates an "ambitious goal, a meaningful Malaysian role" in a future international Islamic banking system, according to recent Kuala Lumpur dailies.

The 21 March UTUSAN MALAYSIA and 22 March BERITA HARIAN reported that Malaysia established an Islamic money market in January becoming the first country with a "full-fledged" Islamic banking system. The papers said this important milestone came when the Central Bank issued the first bonds based on Islamic principles. They are redeemable at par upon maturity or on demand at the Central Bank. The borrower is not obliged to reward lenders for their benevolence but may do so. Thus, the government has absolute discretion whether to reward bond holders--and if so, by how much, the papers said.

According to the 22 March BERITA HARIAN, Malaysia now has the three criteria required to have a comprehensive Islamic financial system--an Islamic interbank money market in Islamic financial instruments, Islamic interbank investments, and an Islamic interbank check-clearing system. The latter element is somewhat limited. The paper also said that Bank Islam Malaysia Bhd. and other institutions offering interest-free banking can trade in Islamic financial instruments (such as the newly-issued government bonds) among themselves. BERITA HARIAN also detailed the Islamic interbank investments, where one interest-free bank with surplus funds can invest in another that has a deficit. The term for such investments ranges from overnight to one year (similar to a conventional money market), and the minimum investment is $20,000. Profit-sharing ratios, generally determined by the Central Bank, are 70 percent for the provider of funds.

The 21 March UTUSAN MALAYSIA noted that at the end of January, barely a month after it was launched, the Islamic interbank money market reported a trading volume of $90 million. The paper also stated that the Central Bank granted Bank Islam Malaysia Bhd. permission to operate an Islamic stock brokerage firm, thus paving the way for a domestic Islamic capital market.

Both UTUSAN MALAYSIA and BERITA HARIAN stated that the success of the Malaysian Islamic financial system has been recognized by many Islamic countries as a model. Saudi Arabia and Sri Lanka have shown keen interest in studying the Malaysian system in order to implement a similar arrangement. Within ASEAN, Malaysia has assisted Brunei, Indonesia, and the Philippines in establishing interest-free banking. These papers noted that many Islamic countries would like to have an Islamic financial system, and some tried in the 1970s. The papers concluded that if infrastructure can be established between countries to link their Islamic banking systems, many countries will be able to participate.

PHILIPPINES

International Consortium Seeks To Operate Bataan Nuclear Plant

A Malaysian-U.S. consortium has submitted a proposal to the Philippine Government to convert the $2.3 billion Bataan Nuclear Power Plant (BNPP) with a capacity of 600 MW, into a 1,890-MW power facility, on a 25-year build-operate-transfer arrangement. The consortium would raise $1.5 billion to cover such costs as installing the transmission lines, building the necessary infrastructure, establishing a natural gas vaporization plant, laying a gas pipeline, etc. The conversion plan also calls for the plant to use pollution-free liquefied natural gas from Malaysia, and its output is to be sold to the National Power Corporation (Napocor). (Kuala Lumpur BERITA HARIAN 20 Mar 94 p 7)

THAILAND

Oil-Related Joint Venture in Vietnam Reported

The Petroleum Authority of Thailand and Charoen Phokphan plan to establish a $28-million oil-related venture with Saigon Petro. The new company, PetroAsia (Saigon), will establish oil depots and terminals, a retail oil network, and a liquefied petroleum gas distribution and trading operation. (Bangkok BANGKOK POST 12 Apr 94 p 15)

First Quarter Rice Exports Reach 1.3 Million Tons

Thailand exported about 1.3 million tons of rice during the first three months of this year, compared to 960,000 tons during the same period last year. The increase in exports should lead to an increase in the domestic rice price of $220 a ton. (Bangkok Radio Thailand Network 0000 GMT 14 Apr)

Firms Form Consulting Company With Burmese State Agency

GCN Holdings Ltd, Siam Commercial Bank, and the Union of Myanmar Economic Holdings, Ltd. recently announced the formation of a new consulting company for investors wishing to explore business opportunities in Burma. Thai investors own 30 percent of the new firm, called Myanmar Consultants (Thailand) Co. Ltd., while the Burmese partner owns the remainder. (Bangkok THE NATION 8 Apr 94 p B2)

CP Group To Invest in Shanghai Industrial Park

The Charoen Phokphan Group plans to invest $400 million in an industrial park in Shanghai, and has identified three counties as possible sites--Pudong, Songjiang, and Jiading. The company has asked the governor of Shanghai to grant investment incentives similar to those offered in Pudong regardless of which county is selected. Incentives in Pudong include a 15-percent corporate tax exemption for the first two years, a 50-percent tax reduction in the following three years, exemption from the 10-percent tax on profits transferred out of China, and exemption from import duty on machinery and equipment used in the project. (Bangkok XING XIAN RIBAO 7 Apr 94 p 16)

Regional Banks' Loan Package to Refinery Company

Seven Singapore-based banks--Development Bank of Singapore, Citicorp Investment, Deutsche Bank (Asia Pacific), Dresdner (Southeast Asia), Fuji Bank Singapore, LTCB Merchant Bank Singapore, and Westpac Singapore--have joined 14 other banks and the International Finance Corporation [IFC] to arrange a $1.2 billion loan package for the Star Petroleum Refining Company. The loans, with maturities from 10 to 13 years, will be provided by the IFC and 58 financial institutions from Asia, Australia, Europe, the Middle East, and the United States. The funds will finance the construction of Star's 130,000 barrel-a-day refinery in Rayong Province. (Singapore STRAITS TIMES 31 Mar 94 p 22)

Firm Signs Memorandum on Lao Hydropower Project

Siam United Services signed a memorandum with the Lao Government to construct the Nam Theun 1 hydropower project. On 25 March the company was granted a concession from the Lao Government to build the Nam Theun 1 hydropower project in Khammouan and Bolikhamsai Provinces. The Lao Government will invest at least 30 percent of the total project value. The Nam Theun 1-2 project is expected to be completed in the year 2000 and produce 400-1,400 megawatts for sale to Thailand, earning Laos about $136 million annually. The hydropower project is seen as a solution to the water crisis in Thailand. (Bangkok THE NATION 4 Apr 94 p B2)

Bank Reports Decline in Foreign Investment

Direct foreign investment in Thailand declined by 27.5 percent last year compared with 1992 as investors shifted to other countries they considered more attractive, a Bank of Thailand

spokesman said. Foreign investors pumped $1.56 billion into Thailand in 1993 compared with $2.15 billion the year before. Net external borrowing in 1993 dropped by 42.4 percent to $1.59 billion from $2.77 billion in 1992. Singapore, Japan, and Hong Kong were the main lenders to Thailand. Net investment in the Stock Exchange of Thailand increased sixfold, from $460.48 million in 1992 to $2.7 billion. (Bangkok BANGKOK POST 6 Apr 94 p 24)

VIETNAM

FEATURE: Export Processing Zones' Development Reviewed

There are five licensed EPZ's nationwide according to press reports. Total investment amounts to $305.5 million. Investors from 25 countries have registered to build factories and invest in the EPZ's. Only one firm has produced and exported products. State Committee for Cooperation and Investment (SCCI) Vice Chairman Lu Minh Chau said that no more EPZ's should be built.

The 16 March issue of THOI BAO KINH TE SAIGON reported that the SCCI recently held a conference in Ho Chi Minh City to review work, achievements on EPZ's.

There are five EPZ's in Vietnam. Total investment capital of licensed projects including infrastructure projects, amounted to $305.5 million or 4.1 percent of the country's total foreign investment from 1988-1993. Nearly 100 companies from 25 countries have registered to lease land at the EPZ's in Tan Thuan, Linh Trung, and Haiphong. These projects will primarily produce or process sports equipment, electronic games, garments, bags, yarn, food and agricultural products. Ground-breaking ceremonies were held for the Can Tho and Da Nang EPZ's in March.

The 9 February THOI BAO KINH TE SAIGON reported that according to the SCCI, the five EPZ's are:

EPZ Name	Location	Date Licensed	Size (Hectares)	Infrastructure Investment ($1 million)
Can Tho	Can Tho	2 Nov 93	57	$8.1
Da Nang	Quang Nam-Da Nang	21 Oct 93	120	$24.0
Haiphong	Haiphong	12 Jan 93	300	$150.0
Linh Trung	Ho Chi Minh City	31 Aug 92	60	$14.0
Tan Thuan	Ho Chi Minh City	24 Sep 91	300	$89.0

Another article in the same edition reported that, according to the vice chairman of the Haiphong EPZ Board of Directors, the EPZ is located 16 km southeast of the city and 12 km from Cat Bi airport. It is a joint venture between the Haiphong City EPZ Development Company and the Hong Kong Very Good International Company Ltd. It will be the largest in Vietnam with investment worth $2.5 billion and will be expanded to 980 hectares, with 300 hectares for manufacturing firms and some 600 for hotels, a golf course, offices, housing, and

a recreational area. Industries being promoted here include textiles, garments, leather goods, paper, packaging materials, electronics, machine and transportation equipment, precision tools, chemicals, food products, and consumer goods. Companies operating here can import equipment and materials and export their products all tax free. Manufacturers will pay a 10 percent income tax--15 percent for services companies--four years after they start making profits.

The 9 February THOI BAO KINH TE SAIGON also reported that the two EPZ'z in Ho Chi Minh City have "gone far" in building infrastructure and organizing a state management apparatus to license projects. Infrastructure at Tan Thuan is expected to be completed in 1994.

So far, eight enterprises have been licensed at Tan Thuan and two at Linh Trung. One firm started to export its products to Europe in December, two more are expected to be producing at the end of the first quarter of 1994. More than 30 investors from Taiwan, South Korea, Japan, France, Hong Kong, Thailand, Indonesia, and China have paid fees to operate in the two EPZ's.

The same issue of THOI BAO KINH TE SAIGON reported that the Da Nang EPZ is organizing its managment and getting ready to build infrastructure. Soon after the EPZ was licensed, companies from Malaysia, Japan, Thailand, Singapore, South Korea, Europe, and the United States signed up to invest.

In contrast with other EPZ's, local companies alone are building Can Tho's infrastructure. According to the vice chairman of Can Tho People's Committee, the EPZ is "quickly" organizing its management. Thai, Singaporean, Indonesian, and American firms have registered to invest in food processing.

The 16 March issue of paper reported that SCCI Deputy Director Lu Minh Chau, who is also director of the Ho Chi Minh City EPZ's Management Board, said that for the time being, no more EPZ's should be built. Instead, there should be studies made on other types of investment such as industrial parks, special economic compounds, and free trade zones. Pilot projects must be established for these when conditions are favorable.

Thai Firm To Build Industrial Zone at Bien Hoa

Bang Pakong Industrial Park, a Thai real estate development company, has reached agreement with the Vietnamese Government to develop the former U.S. military base at Bien Hoa, near Ho Chi Minh City, into a large industrial zone under a joint venture arrangement with a Bien Hoa company. The government will give 800 hectares to the joint venture company free of charge.

After site preparation work is completed, lots will be sold to "influential companies" from Thailand, Japan, Europe, and the United States. The amount of investment capital for the new company has not been decided, but total investment in the project will come to $400 million. Bang Pakong's president will also serve as president of the joint venture firm.

In June 1994 Bang Pakong will begin selling lots to Thai and Japanese companies. The first 100-hectare section of the zone will be completed by August, and construction of the entire zone should be completed by August 1995. Some 200 to 300 factories will be built, with the focus on those devoted to "labor-intensive production."

Bang Pakong, which was established in 1987, has completed the development of a large industrial zone in Chonburi, southeast of Bangkok, where it has sold lots to Japanese firms. (Tokyo NIKKEI SANGYO SHIMBUN 26 Mar 94 p 3)

Ministry's Plan for Development of Auto Industry

The Ministry of Heavy Industry will propose that future SRV automobile production be based on the number of vehicles per thousand population and per capita income.

According to the plan, by 2005 the Vietnamese market will need up to 17,300 passenger cars and up to 63,600 commercial vehicles per year. To maximize return on investment in the auto industry, the number of joint venture assembly plants should be limited to three to four for commercial vehicles and two for passenger cars. One hundred percent foreign-owned plants must be probihited, unless the output is for export only.

To avoid letting any one country dominate Vietnam's auto industry, it will be necessary to acquire technology from the United States, Western Europe, and Japan. Technology transfer is seen as more important than profit.

The ministry should recommend that the government stop issuing permits to build assembly plants in order to encourage well known international manufacturers to enter ventures as Italy's Ivesco has done with the Mekong Auto Plant.

In 1991, joint venture licences were issued for the Co Loa Factory in Hanoi, the Cuu Long Machine Factory, and the Hoa Binh auto plant with ROK and Philippine partners. In late 1993, a third joint venture with Daewoo was licensed. At present, the Mekong Auto plant and the Vietnam auto plant "VMC" have started production. These two plants have a capacity of nearly 5,000 vehicles per year.

To support the local auto industry, the government has increased the import duty on fully assembled vehicles from 100 to 150 percent and has reduced the import duty on CKD vehicle kits to 20 percent. (Hanoi QUAN DOI NHAN DAN 15 Mar 94 p 3)

Park Resort Venture With Singaporean Company

Hanoi's Tourist Hotels Company under the Hanoi Labor Union recently formed a joint venture with Singapore's Keppel Group's Straits Steamship Land Company to build the Ho Tay-Quang Ba National Park in Hanoi. Total investment is $98-$110 million. Prescribed capital is $56 million, of which the Vietnamese partner will contribute 30 percent. The park resort will include a golf course and a five-star 300-room hotel with tennis courts, and will be completed in 30 months. (Hanoi THOI BAO KINH TE VIETNAM 16 Mar 94 p

Minister Outlines Measures to Facilitiate Investment

At a January meeting, Minister Dau Ngoc Xuan, chairman of the State Commission for Cooperation and Investment, discussed foreign investment and viewed eight issues which require prompt attention:

1. The government is urgently drafting policies to promote investment in afforestation and industrial crops in the mountainous and central regions. It will improve its tax policy and will soon promulgate legislation governing labor, commerce, real estate, and mining.

2. During the second quarter of 1994 at the latest, two plans will be completed concerning investment in export processing zones and to assist a number of sectors facing tough competition, including beer brewing and automobile- and motorbike assembly.

3. In the capitalization of joint ventures, steps will be taken so that Vietnamese partners no longer contribute primarily real estate. Firms will be allowed to pool capital with foreigners, and capital will be raised from the population for projects certain to have high economic return.

4. The government has tasked the Ministry of Industry, Science, and Environment and specialized branches to develop a policy on machinery imports. Technical and industrial consulting firms will be formed.

5. Regulations on labor conditions and pay at foreign firms will be issued. There will be inspections to protect workers' rights and to avoid "regrettable" incidents.

6. By the end of first quarter of 1994, the state's oversight of foreign industries will be improved, with many administrative procedures simplified. Projects involving less than $5 million will get permits in not more than 45 days. Approvals will be primarily based on the recommendations of the city or province and economic or technical agency concerned.

7. Procedures for the initiation, development, and government review of investment projects will be simplified to the maximum extent possible.

8. About 2,500 Vietnamese cadres work in joint-venture firms. Most are appointed by local authorities. Very few have the necessary qualifications and experience needed to work with foreign investors. In the future, cadres for joint ventures will be found through competitive testing. Courses to train these cadres will be organised quickly.

Minister Xuan said that Vietnam is past the stage of "testing the waters on the concept of foreign investment." Efforts must be made to attract some $14 billion from 1991 [as published] to 2000. (Hanoi THOI BAO KINH TE VIETNAM 26 Jan 94 p 5)

Prices, Export-Import Value Increase in First Quarter

The price indices of goods and services in the first quarter of 1994 showed an average increase of 2.6 percent per month. Goods available were diversified and their prices rather stable. The total value of retail sales--of which the state sector accounted for 23 percent--increased 25 percent over the same period last year. The total export-import value in the first quarter was estimated at about $1.418 billion. Exports--mainly rice, garments, textiles, and crude oil--were worth $670 million, up 27 percent. The total import value was estimated at $748 million, up 12 percent over the corresponding period last year. The Ministry of Trade plans to achieve a total export-import value of $3.3 billion in the first half of this year, an increase of between 23 and 27 percent over the first half of 1993. (Hanoi VNA 0555 GMT 5 Apr 94)

Heavy Industries Increase Output in First Quarter

In the first quarter of 1994, business and production establishments under the Ministry of Heavy Industry achieved a total output of $2.8 million, 8 percent better than the same period last year. (Hanoi Voice of Vietnam 1100 GMT 2 Apr 94)

Taiwan Firms Join Sugar Production Venture

The Sugar Corporation No. 1, Thanh Hoa Sugar Company, and Taiwan's Taiwan Sugar Corporation, I-Mei Foods Company, King Car Foods, and Fu Mei Foods have signed a joint venture contract establishing the Vietnam-Taiwan Sugar Ltd. Company. The venture is expected to process 6,000 metric tons of cane per day, becoming the biggest sugar producer in Vietnam. The $66 million project is expected to begin this year and create nearly 10,000 jobs. (Hanoi VNA 1439 GMT 2 Apr 94)

HCMC Lists 265 Projects Needing Foreign Investment

Ho Chi Minh City has listed 265 projects that need foreign investment between now and 1995. According to the plan, the city will have 15 industrial areas for mechanical, processing, electronics, and hi-tech businesses. Other projects include 13 infrastructure projects, 22 technical construction projects to modernize residential areas, transport, airports, ports, and post and telecommunications networks, 130 development projects in mechanical, metallurgy, processing of agro-forestry-fishery products, chemicals, construction material, and textiles, 26 projects in agricultural products, and 29 projects for upgrading tourist centers and hotels. The total capital for these projects is envisaged at nearly $9 billion. (Hanoi Voice of Vietnam 2300 GMT 29 Mar 94)

Coffee Output Reported; Exporters Using Direct Contracts

In the first five months of the 1993-1994 coffee crop, Vietnam exported more than 100,000 tonnes of beans. Exporters have won direct contracts to sell their products abroad, reducing exports through intermediaries to 41 percent, down from 60 percent last year. This year Vietnam has about 137,000 hectares of coffee, yielding an average of one tonne per hectare. It is expecting to harvest between 125,000 and 135,000 tonnes. (Hanoi VNA 1358 GMT 5 Apr 94)

Cashew Growers Earn Over $40 Million in 1993

Last year, southern cashew growers earned over $40 million by exporting 53,000 tons of cashew nuts. The 1994 harvest is expected to yield 70,000 tons. Vietnam ranks third among cashew exporters after Brazil and India. Twenty-two cashew processing enterprises with a total capacity of 75,000 tons per year are now operational. (Hanoi VNA 1346 GMT 6 Apr 94)

Transformer Manufacture With Switzerland Reported

The Ministry of Heavy Industry and the ABB Transformer, Ltd. of Switzerland recently signed a joint venture agreement to manufacture transformers and other electric appliances in Hanoi. The Vietnamese partner will contribute 35 percent of the $8.7 million, 35-year venture. (Hanoi VNA 1459 GMT 9 Apr)

First Quarter Foreign Investment Figures in Dong Nai Reported

The Mekong Delta Province of Dong Nai reported eight additional foreign investment projects in the first quarter of this year, amounting to $46.85 million. Presently, there are 65 foreign investment projects in Dong Nai with a total capital of $878.85 million. Prominent among these projects are the Hualon Dyeing United Enterprise, capitalized at $242 million, the Vedan Stock Corporation at $216 million, and the Vietnam Soda Chemicals at $76.7 million. (Hanoi VNA 1424 GMT 13 Apr 94)

National Power Company To Start Operation in May

The Electricity Company No. 2 announced that the national 500-kv power grid will start operation in May. The grid will have the capacity to provide power to 19 provinces and cities in the south, spreading from Ninh Thuan to Minh Hai. (Hanoi Voice of Vietnam 1100 GMT 7 Apr 94)

Construction Begins on Bach Ho-Ba Ria Gas Pipeline

Petrovietnam and Hyundai Heavy Industries on 9 April started building a gas pipeline from the Bach Ho (White Tiger) Oil Field to the Ba Ria Power Plant. This is the first phase of the $400 million gas collection and transportation system from the Bach Ho field to the Thu Duc Power Plant in Ho Chi Minh City and is scheduled to be completed by October. A 107-km pipeline will be built from Bach Ho to the Ky Van area in Long Hai Township, and a 19.5-km onshore line will be built from Long Hai to the Ba Ria plant. The line's capacity is 300 million cubic meters of gas per year. Phase two will involve building an LPG plant in Ba Ria and about 85 km of pipeline to the Thu Duc plant. The gas collection and transportation systems will have a capacity of 1.5 billion cubic meters per year. At present about 3 million cubic meters of gas is burned each day at Bach Ho. (Hanoi VNA 11 Apr 94)